

Report on the

**Single Audit of Federal Financial  
Assistance Programs Performed in  
Accordance With the Single Audit  
Act Amendments of 1996 (Public  
Law 104-156) and U. S. Office of  
Management and Budget  
Circular A-133  
State of Alabama  
October 1, 2005 through September 30, 2006**

Filed: August 17, 2007



**Department of  
Examiners of Public Accounts**

**50 North Ripley Street, Room 3201**

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*Ronald L. Jones, Chief Examiner*



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State of Alabama  
Department of  
**Examiners of Public Accounts**

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Ronald L. Jones  
Chief Examiner

Honorable Ronald L. Jones  
Chief Examiner of Public Accounts  
Montgomery, Alabama 36130

Dear Sir:

Under the authority of the *Code of Alabama 1975*, Section 41-5-14, I submit this report on the Single Audit of the State of Alabama for the period October 1, 2005 through September 30, 2006.

**Audit of General Purpose Financial Statements**

The audit of the State of Alabama General Purpose Financial Statements for the fiscal year ended September 30, 2006, was issued by the Department of Examiners of Public Accounts as Report Number 07-323 on April 20, 2007. The audited Basic Financial Statements were included in the State of Alabama *Comprehensive Annual Financial Report* prepared and published by the Department of Finance. Included with the *Comprehensive Annual Financial Report* are the Independent Auditor's Report and a Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*, both of which are required by *Government Auditing Standards* for financial audits. The Report to the Chief Examiner, required by the *Code of Alabama 1975*, Section 41-5-21, includes findings and recommendations resulting from the audit of the Basic Financial Statements, which have also been included on the Schedule of Findings and Questioned Costs contained in this report.

**Single Audit - Scope and Objective**

The Single Audit was performed in accordance with the requirements of the Single Audit Act Amendments of 1996 and the U. S. Office of Management and Budget (OMB) Circular A-133. The objective of the Single Audit was to determine whether the State of Alabama has complied with applicable laws and regulations of federal financial assistance programs and the State of Alabama. The audit was performed in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States.

This report is a statewide Single Audit report that includes federal financial assistance programs administered by state agencies.

The Housing Finance Authority, the Water Pollution Control Authority, the Drinking Water Finance Authority, and the Educational Television Commission/Alabama Public Television Foundation (which are component units of the State of Alabama), are not included in the Schedule of Expenditures of Federal Awards. The Housing Finance Authority administered the Home Investment Partnerships Program (CFDA #14.239) and expended \$10,146,747 of federal awards. The Water Pollution Control Authority administered the Capitalization Grants for State Revolving Funds (CFDA #66.458) and expended \$26,058,751 of federal awards. The Drinking Water Finance Authority administered the Capitalization Grants for Drinking Water - State Revolving Funds (CFDA #66.468) and expended \$7,571,421 of federal awards. The Educational Television Commission/Alabama Public Television Foundation administered the E Learning for Educators (CFDA #84.286A), the Read to Lead in Literacy (CFDA #84.338), and the Public Telecommunications Facilities Program (CFDA #11.550) and expended \$2,320,675, \$3,252,909 and \$206,359, respectively. These programs were audited in accordance with OMB Circular A-133 by other auditors.

We have also excluded federal financial assistance programs administered by state-supported colleges and universities, which are a part of the financial reporting entity of the State of Alabama and included on the Basic Financial Statements. The Single Audits of the state-supported colleges and universities are performed and issued separately for each institution.

### **Other Comments**

In addition to this Report to the Chief Examiner, this report includes the following Single Audit schedules and reports required by OMB Circular A-133:

- Schedule of Expenditures of Federal Awards;
- Notes to the Schedule of Expenditures of Federal Awards;
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With ***Government Auditing Standards***;
- Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133;
- Schedule of Findings and Questioned Costs;
- Summary Schedule of Prior Audit Findings; and
- Auditee Responses/Corrective Action Plans.



The State of Alabama expended \$6,812,059,765 in federal financial assistance during the 2005-2006 fiscal year. All federal financial assistance received and expended by state agencies is shown on the Schedule of Expenditures of Federal Awards. The federal programs are listed by federal grantor agency. The state agencies administering the programs are shown in a separate column.

All Single Audit findings related to noncompliance, questioned costs, reportable conditions in internal controls, and recommendations are detailed on the Schedule of Findings and Questioned Costs.

Sworn to and subscribed before me this  
the 7<sup>th</sup> day of August, 2007.

Sandra E Shirley  
Notary Public

Respectfully submitted,

Gail Traylor

Gail Traylor  
Examiner of Public Accounts

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***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2006***

<b>Federal Grantor/ Pass-Through Agency/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>
<b><u>DEPARTMENT OF AGRICULTURE</u></b>		
Plant and Animal Disease, Pest Control, and Animal Care	10.025	\$ 1,096,101
Conservation Reserve Program	10.069	128,453
Federal-State Marketing Improvement Program	10.156	66,985
Inspection Grading and Standardization	10.162	9,771
Grants for Agricultural Research, Special Research Grants	10.200	
State Mediation Grants	10.435	185,811
Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	10.475	1,615,424
Food Donation	10.550	17,835,379
Food Donation Disaster Feeding	10.550	53,983
<b><u>Food Stamp Cluster</u></b>		
Food Stamps	10.551	605,020,363
State Administrative Matching Grants for Food Stamp Program	10.561	26,180,164
Total Food Stamp Cluster (M)		<u>631,200,527</u>
<b><u>Child Nutrition Cluster</u></b>		
School Breakfast Program	10.553	38,302,642
National School Lunch Program	10.555	136,544,556
Special Milk Program for Children	10.556	56,464
Summer Food Service Program for Children	10.559	4,165,429
Total Child Nutrition Cluster		<u>179,069,091</u>
Special Supplemental Nutrition Program for Women, Infants, and Children (M)	10.557	116,589,927
Child and Adult Care Food Program (M)	10.558	34,456,047
State Administrative Expenses for Child Nutrition	10.560	2,938,683
<b><u>Emergency Food Cluster</u></b>		
Emergency Food Assistance Program - Administrative Costs	10.568	855,320
Emergency Food Assistance Program - Food Commodities	10.569	4,203,787
Total Emergency Food Cluster		<u>\$ 5,059,107</u>

(M) - Denotes Major Programs

Expenditures	Note	Pass-Through to Subrecipients	Agency
\$ 1,340,774		\$ 19,950	Agriculture and Industries/ Conservation and Natural Resources
249,020			Conservation and Natural Resources
66,985			Agriculture and Industries
9,771			Agriculture and Industries
32,392			Conservation and Natural Resources
185,811			Agriculture and Industries
1,489,644			Agriculture and Industries
17,835,379	3A	17,835,379	Education
53,983	3A	53,983	Education
605,020,363			Human Resources
29,538,177			Human Resources
<u>634,558,540</u>			
38,332,022		38,332,022	Education
136,551,096		136,551,096	Education
56,464		56,464	Education
4,169,206	3A	4,003,744	Education
<u>179,108,788</u>		<u>178,943,326</u>	
118,843,384	3B	3,804,441	Public Health
34,586,939		34,258,140	Education
2,751,409			Education
855,320		847,144	Education
4,203,787	3A	4,203,787	Education
<u>\$ 5,059,107</u>		<u>\$ 5,050,931</u>	

# ***Schedule of Expenditures of Federal Awards For the Year Ended September 30, 2006***

<b>Federal Grantor/ Pass-Through Agency/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>
WIC Farmers' Market Nutrition Program	10.572	\$ 428,980
Seniors Farmers Market Nutrition Program	10.576	991,596
Forestry Research	10.652	-
Cooperative Forestry Assistance	10.664	9,699,445
Schools and Roads - Grants to States	10.665	3,177,681
Rural Development, Forestry, and Communities	10.672	174,000
Forest Legacy Program	10.676	7,335,688
Forest Land Enhancement Program	10.677	580,000
Agricultural Statistics Reports	10.950	7,000
<b><u>Other Federal Assistance</u></b>		
Other Cooperative Agreements	10.Unknown	5,072,152
Bankhead National Forest	10.Unknown	718
Farm Bill Agreement #65-4101-5-03	10.Unknown	-
USDA RC&D Councils Agreement #65-4101-6-02	10.Unknown	99,000
Total Department of Agriculture		<u>1,017,871,549</u>
<b><u>DEPARTMENT OF COMMERCE</u></b>		
Economic Development - Support for Planning Organizations	11.302	114,000
Economic Adjustment Assistance	11.307	340,000
Interjurisdictional Fisheries Act of 1986	11.407	30,866
Coastal Zone Management Administration Awards (M)	11.419	2,719,316
Coastal Zone Management Estuarine Research Reserves	11.420	1,552,573
Cooperative Fishery Statistics	11.434	86,675
Southeast Area Monitoring and Assessment Program	11.435	92,376
Unallied Industry Projects	11.452	563,698
Unallied Management Projects - Oyster Reef Recovery	11.454	\$ 1,527,922

(M) - Denotes Major Programs

<b>Expenditures</b>	<b>Note</b>	<b>Pass-Through to Subrecipients</b>	<b>Agency</b>
\$ 343,281		\$ -	Farmer's Market Authority/Public Health
991,596		-	Farmer's Market Authority
535,000		-	Forestry Commission
9,318,543		861,226	Forestry Commission/ Soil and Water Conservation Committee
3,187,454		2,509,785	Department of Finance
782,515		407,292	Forestry Commission
7,335,688		7,335,688	Forestry Commission
580,000		306,765	Forestry Commission
7,000		-	Agriculture and Industries
5,034,698			Agriculture and Industries
-			Conservation and Natural Resources
426,157			Soil and Water Conservation Committee
98,000			Soil and Water Conservation Committee
<u>1,024,811,858</u>		<u>251,386,906</u>	
159,322			Economic and Community Affairs
-			Economic and Community Affairs
45,848			Conservation and Natural Resources
2,452,328		482,539	Conservation and Natural Resources
609,292			Conservation and Natural Resources
87,201			Conservation and Natural Resources
105,238			Conservation and Natural Resources
563,489		497,379	Economic and Community Affairs
\$ 981,714		\$ -	Conservation and Natural Resources

# ***Schedule of Expenditures of Federal Awards For the Year Ended September 30, 2006***

<b>Federal Grantor/ Pass-Through Agency/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>
<b><u>Other Federal Assistance</u></b>		
Joint Enforcement Agreement (Advancement)	11.Unknown	\$ 264,010
Gulf of Mexico Fishery Management Council Liaison	11.Unknown	45,000
Gulf States Marine Fisheries Commission (Pass Through)	11.Unknown	475,153
Department of Commerce - NOAA NA05NOS4001068	11.Unknown	945,684
Department of Commerce - NOAA NA04NOS4000164	11.Unknown	411,490
MRSFF	11.Unknown	-
Total Department of Commerce		<u>9,168,763</u>
<b><u>DEPARTMENT OF DEFENSE</u></b>		
Aquatic Plant Control	12.100	38,858
Navigation Projects	12.107	309,294
National Guard Military Operations and Maintenance (O&M) Projects	12.401	33,881,108
<b><u>Other Federal Assistance</u></b>		
Troops to Teachers	12.Unknown	284,029
Bob Cat Cave Monitoring (USA Aviation and Missile Command)	12.Unknown	18,375
Redstone Arsenal	12.Unknown	-
Total Department of Defense		<u>34,531,664</u>
<b><u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u></b>		
Manufactured Home Construction and Safety Standards	14.171	309,543
Community Development Block Grants/State's Program (M)	14.228	32,806,818
Emergency Shelter Grants Program	14.231	1,650,199
Shelter Plus Care	14.238	149,834
Housing Opportunities for Persons with AIDS	14.241	1,383,753
Community Development Block Grants/Brownfields Economic Development Initiative	14.246	-
Total Department of Housing and Urban Development		<u>\$ 36,300,147</u>

(M) - Denotes Major Programs

<b>Expenditures</b>	<b>Note</b>	<b>Pass-Through to Subrecipients</b>	<b>Agency</b>
\$ 634,086		\$ -	Conservation and Natural Resources
25,643			Conservation and Natural Resources
292,420			Conservation and Natural Resources
945,684			Revenue
414,799			Revenue
156,157			Conservation and Natural Resources
<u>7,473,221</u>		<u>979,918</u>	
77,608			Conservation and Natural Resources
341,282			Conservation and Natural Resources
33,881,108			Military Department
178,070			Education
357			Geological Survey
15,272			Geological Survey
<u>34,493,697</u>		<u>-</u>	
309,543			Manufactured Housing Commission
32,800,590		32,072,872	Economic and Community Affairs
1,650,133		1,614,536	Economic and Community Affairs
176,308		176,308	Mental Health and Mental Retardation
1,377,594		1,346,153	Economic and Community Affairs
1,859			Historical Commission
<u>\$ 36,316,027</u>		<u>\$ 35,209,869</u>	

# ***Schedule of Expenditures of Federal Awards***

## ***For the Year Ended September 30, 2006***

<b>Federal Grantor/ Pass-Through Agency/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>
<b><u>DEPARTMENT OF INTERIOR</u></b>		
Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	15.250	\$ 1,086,600
Abandoned Mine Land Reclamation (AMLR) Program	15.252	3,970,009
<b><u>Fish and Wildlife Cluster</u></b>		
Sport Fish Restoration	15.605	5,238,068
Wildlife Restoration	15.611	4,920,052
Total Fish and Wildlife Cluster (M)		<u>10,158,120</u>
Fish and Wildlife Management Assistance	15.608	-
Endangered Species Conservation	15.612	318,829
Clean Vessel Act	15.616	214,061
North American Wetlands Conservation Fund	15.623	821,094
Wildlife Conservation and Restoration	15.625	94,838
Landowner Incentive	15.633	41,414
State Wildlife Grants	15.634	709,007
U. S. Geological Survey - Research and Data Collection	15.808	21,770
National Cooperative Geologic Mapping Program	15.810	88,486
Historic Preservation Fund Grants-In-Aid	15.904	595,764
Outdoor Recreation - Acquisition, Development and Planning	15.916	2,190,406
Save America's Treasures	15.929	14,594
<b><u>Other Federal Assistance</u></b>		
Anniston GIS (FWS)	15.Unknown	24,848
CIBA-GEIGY (FWS)	15.Unknown	60,000
Sand Resources (MMS)	15.Unknown	22,773
MMS Petroleum Systems (MMS)	15.Unknown	44,717
Mobile-Tensaw River (FWS)	15.Unknown	17,589
Seismographic Station (USGS)	15.Unknown	585
National Fish and Wildlife Foundation	15.Unknown	17,575
Cooperative Agreement	15.Unknown	377,145
Total Department of Interior		<u>\$ 20,890,224</u>

(M) - Denotes Major Programs



Expenditures	Note	Pass-Through to Subrecipients	Agency
\$ 2,219,617		\$ -	Surface Mining Commission
4,088,337		-	Industrial Relations
5,916,916		28,000	Conservation and Natural Resources
4,757,853		13,500	Conservation and Natural Resources
<u>10,674,769</u>			
1,125			Soil and Water Conservation Committee
359,298			Conservation and Natural Resources
191,166		-	Environmental Management
-			Conservation and Natural Resources
101,980			Conservation and Natural Resources
51,352			Conservation and Natural Resources
729,827		51,388	Conservation and Natural Resources/ Soil and Water Conservation Committee
15,120			Geological Survey
88,222			Geological Survey
595,764		29,890	Historical Commission
2,157,810		1,755,079	Economic and Community Affairs
24,558			Historical Commission
21,300			Geological Survey
60,000			Geological Survey
8,528			Geological Survey
50,000			Geological Survey
19,083			Geological Survey
-			Geological Survey
18,500			Geological Survey
-			Conservation and Natural Resources
<u>\$ 21,476,356</u>		<u>\$ 1,877,857</u>	

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2006***

<b>Federal Grantor/ Pass-Through Agency/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>
<b><u>DEPARTMENT OF JUSTICE</u></b>		
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202	\$ 587,912
Juvenile Accountability Incentive Block Grants	16.523	30,615
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	1,278,491
Title V - Delinquency Prevention Program	16.548	156,019
Part E - State Challenge Activities	16.549	9,527
State Justice Statistics Program for Statistical Analysis Centers	16.550	67,569
National Criminal History Improvement Program (NCHIP)	16.554	1,625,938
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	1,168,271
Crime Victims Assistance	16.575	5,588,338
Crime Victims Compensation	16.576	1,282,371
Edward Byrne Memorial Formula Grant Program	16.579	2,012,123
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	357,000
Crime Victim Assistance/Discretionary Grants	16.582	176,856
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	2,703,727
Violence Against Women Formula Grants	16.588	1,888,726
Rural Domestic Violence and Child Victimization Enforcement Grant Program	16.589	441,335
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	439,036
Local Law Enforcement Block Grant Program	16.592	(142)
Residential Substance Abuse Treatment for State Prisoners	16.593	1,225,168
Enforcing Underage Drinking Laws Program	16.727	416,769
Edward Byrne Memorial Justice Assistance Grant Program (M)	16.738	11,932,695
<b><u>Other Federal Assistance</u></b>		
Drug Enforcement Administration	16.Unknown	1,725,833
Community Oriented Policing Services	16.Unknown	893,754
Office of Justice Programs	16.Unknown	329,719
Office of National Drug Control Policy	16.Unknown	435,701
National Office for Missing and Exploited Children	16.Unknown	120,151
Total Department of Justice		<u>\$ 36,893,502</u>

(M) - Denotes Major Programs

Single Audit of Federal  
Financial Assistance Programs  
State of Alabama

<b>Expenditures</b>	<b>Note</b>	<b>Pass-Through to Subrecipients</b>	<b>Agency</b>
\$ 583,830		\$ 564,954	Economic and Community Affairs/Youth Services
1,633,237		514,326	Economic and Community Affairs
1,277,142		1,170,908	Economic and Community Affairs
155,340		145,170	Economic and Community Affairs
9,527		9,527	Economic and Community Affairs
49,899			Criminal Justice Information
872,329		555,141	Criminal Justice Information
1,184,361			Forensic Sciences/Economic and Community Affairs
5,584,714		5,244,441	Economic and Community Affairs
1,282,371			Crime Victims Compensation
2,009,273		1,455,336	Economic and Community Affairs
360,772			Public Health
231,593		127,923	Attorney General's Office
2,703,601			Economic and Community Affairs
1,879,918		1,673,777	Economic and Community Affairs
441,335		441,335	Economic and Community Affairs
439,036		439,036	Economic and Community Affairs
15,000		15,000	Economic and Community Affairs
1,224,875			Economic and Community Affairs
416,468		256,217	Economic and Community Affairs
3,395,416		2,994,136	Economic and Community Affairs
1,298,125			Public Safety
4,500,358			Public Safety
277,855			Public Safety
333,724			Public Safety
297,578			Public Safety
<u>\$ 32,457,677</u>		<u>\$ 15,607,227</u>	

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2006***

<b>Federal Grantor/ Pass-Through Agency/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>
<b><u>DEPARTMENT OF LABOR</u></b>		
Labor Force Statistics	17.002	\$ 1,248,847
Compensation and Working Conditions	17.005	95,300
<b><u>Employment Service Cluster</u></b>		
Employment Service/Wagner-Peyser Funded Activities	17.207	11,613,138
Disabled Veterans' Outreach Program (DVOP)	17.801	1,006,487
Local Veterans' Employment Representative Program	17.804	1,520,247
Total Employment Service Cluster		<u>14,139,872</u>
Job Corps Program	17.208	642,485
Unemployment Insurance	17.225	315,910,848
Senior Community Service Employment Program (M)	17.235	1,596,414
Trade Adjustment Assistance	17.245	7,260,625
<b><u>Workforce Investment Act Cluster</u></b>		
Workforce Investment Act Adult Program	17.258	12,161,702
Workforce Investment Act Youth Activities	17.259	12,346,918
Workforce Investment Act Dislocated Workers	17.260	20,124,318
Total Workforce Investment Act Cluster (M)		<u>44,632,938</u>
Workforce Investment Act Pilots, Demonstrations, and Research Projects	17.261	2,104,835
Work Incentive Grants	17.266	389,027
Incentive Grants - WIA Section 503	17.267	876,581
Consultation Agreements	17.504	50,485
Disability Employment Policy Development	17.720	428,127
Total Department of Labor		<u>389,376,384</u>
<b><u>DEPARTMENT OF TRANSPORTATION</u></b>		
<b><u>Highway Planning and Construction Cluster</u></b>		
Highway Planning and Construction	20.205	716,194,904
Appalachian Development Highway System	23.003	22,177,648
Total Highway Planning and Construction Cluster		<u>\$ 738,372,552</u>

(M) - Denotes Major Programs

Expenditures	Note	Pass-Through to Subrecipients	Agency
\$ 1,285,978		\$ -	Industrial Relations
95,300			Labor
11,205,279		-	Industrial Relations
1,035,016		-	Industrial Relations
2,777,631		-	Industrial Relations
<u>15,017,926</u>		<u>-</u>	
678,526		-	Industrial Relations
258,135,043	3D		Industrial Relations
1,629,013		1,580,356	Senior Services
8,283,224			Industrial Relations
12,327,922		10,601,293	Economic and Community Affairs
12,167,369		10,371,259	Economic and Community Affairs
19,732,620		16,994,451	Economic and Community Affairs
<u>44,227,911</u>		<u>37,967,003</u>	
2,104,072		691,004	Economic and Community Affairs - new
388,672			Economic and Community Affairs
559,895			Economic and Community Affairs
50,485			Labor
425,382		303,688	Economic and Community Affairs
<u>332,881,427</u>		<u>40,542,051</u>	
716,231,556		24,389,220	Transportation
22,177,648			Transportation
<u>\$ 738,409,204</u>		<u>\$ 24,389,220</u>	

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2006***

<b>Federal Grantor/ Pass-Through Agency/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>
Highway Training and Education	20.215	\$ 4,201
National Motor Carrier Safety	20.218	4,674,688
Recreational Trails Program	20.219	832,599
<b><u>Federal Transit Cluster</u></b>		
Federal Transit - Capital Investments Grants	20.500	1,967,499
Federal Transit - Formula Grants	20.507	1,595,919
Total Federal Transit Cluster		<u>3,563,418</u>
Federal Transit - Metropolitan Planning Grants	20.505	419,416
Formula Grants for Other Than Urbanized Areas	20.509	7,792,914
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	4,837,154
State Planning and Research	20.515	34,584
<b><u>Highway Safety Cluster</u></b>		
State and Community Highway Safety	20.600	2,421,270
Occupant Protection	20.602	944,232
Federal Highway Safety Data Improvement Incentive Grants	20.603	548,372
Safety Incentives Grants for Use of Seatbelts	20.604	275,046
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	926,847
Total Highway Safety Cluster		<u>5,115,767</u>
Pipeline Safety	20.700	501,505
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	211,975
<b><u>Other Federal Assistance</u></b>		
Department of Transportation Demo Grant and Section 2003B Safety Belts	20.Unknown	39,754
Performance and Registration Information System Management Program	20.Unknown	27,949
Total Department of Transportation		<u>\$ 766,428,476</u>

(M) - Denotes Major Programs

<b>Expenditures</b>	<b>Note</b>	<b>Pass-Through to Subrecipients</b>	<b>Agency</b>
\$ 4,201		\$ -	Transportation
6,794,669			Public Safety
865,027		790,821	Economic and Community Affairs
1,967,499		1,967,499	Transportation
1,595,919		1,595,919	Transportation
<u>3,563,418</u>		<u>3,563,418</u>	
419,416		419,416	Transportation
7,792,914		7,154,909	Transportation
4,837,154		4,837,154	Transportation
34,584		34,584	Transportation
2,692,433		1,792,793	Economic and Community Affairs/Public Safety
944,232		187,069	Economic and Community Affairs
545,887			Economic and Community Affairs
275,154		29,706	Economic and Community Affairs
562,199		538,759	Economic and Community Affairs
<u>5,019,905</u>		<u>2,548,327</u>	
494,831			Public Service Commission
81,411		39,403	Emergency Management Agency
40,808		40,808	Economic and Community Affairs
27,949			Revenue
<u>\$ 768,385,491</u>		<u>\$ 43,818,060</u>	

# ***Schedule of Expenditures of Federal Awards***

## ***For the Year Ended September 30, 2006***

<b>Federal Grantor/ Pass-Through Agency/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>
<b><u>APPALACHIAN REGIONAL COMMISSION</u></b>		
Appalachian Regional Development	23.001	\$ 1,805
Appalachian Regional Development - Distance Learning	23.001	587,456
Appalachian Area Development	23.002	822,646
Appalachian Local Access Roads	23.008	1,809
Appalachian Research, Technical Assistance, and Demonstration Projects	23.011	183,323
Total Appalachian Regional Commission		<u>1,597,039</u>
<b><u>GENERAL SERVICES ADMINISTRATION</u></b>		
Donation of Federal Surplus Personal Property	39.003	4,575,562
Help America Vote Act 2002 (Title I)	39.011	130,936
Total General Services Administration		<u>4,706,498</u>
<b><u>NATIONAL AERONAUTICS AND SPACE ADMINISTRATION</u></b>		
<b><u>Other Federal Assistance</u></b>		
NASA Research Grant	43.Unknown	1,467,888
Education Scholarships NNG04GA30G	43.Unknown	6,571
Subrecipient-John Hopkins APL Outreach NAS5-97271	43.Unknown	21,326
N.E.A.T. NNG04GQ23G	43.Unknown	908
Professional Development for NES Educations NNG05GK38G	43.Unknown	328,954
Space Agriculture Education Training Center NNG04ED87A	43.Unknown	14,533
Congressional Earmark for Education Training Equipment NNM05AA27G	43.Unknown	303,953
2005-2007 U. S. Space and Rocket Center Experience NNM05AA07G	43.Unknown	147,843
Rhodes College - NASA Stars #NNM0SAA10G	43.Unknown	17,808
NASA ALL*STARS Grant #NNM05AA10G	43.Unknown	594,262
Total National Aeronautics and Space Administration		<u>2,904,046</u>
<b><u>NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES</u></b>		
Promotion of the Arts - Grants to Organizations and Individuals	45.024	8,000
Promotion of the Arts - Partnership Agreements	45.025	648,200
Grants to States	45.310	2,556,671
National Leadership Grants	45.312	-
Preservation Assistance	45.419	-
Total National Foundation on the Arts and the Humanities		<u>\$ 3,212,871</u>

(M) - Denotes Major Programs



<b>Expenditures</b>	<b>Note</b>	<b>Pass-Through to Subrecipients</b>	<b>Agency</b>
\$ -		\$ -	Economic and Community Affairs
1,457,373		1,395,967	Education
822,646		822,646	Economic and Community Affairs
1,809			Transportation
195,432			Economic and Community Affairs/ Space Science Exhibit Commission
<u>2,477,260</u>		<u>2,218,613</u>	
3,737,636	3E	3,697,186	Economic and Community Affairs
347,340	3I	-	Secretary of State
<u>4,084,976</u>		<u>3,697,186</u>	
1,452,822		1,332,893	Education
6,571			Space Science Exhibit Commission
21,326			Space Science Exhibit Commission
908			Space Science Exhibit Commission
358,442			Space Science Exhibit Commission
14,533			Space Science Exhibit Commission
303,953			Space Science Exhibit Commission
147,873			Space Science Exhibit Commission
17,808			Space Science Exhibit Commission
594,262		69,068	Super Computer Authority
<u>2,918,498</u>		<u>1,401,961</u>	
8,000		8,000	Council on the Arts
515,587		515,587	Council on the Arts
1,335,438		984,180	Public Library Service
20		-	Commission on Higher Education
20		-	Historical Commission
<u>\$ 1,859,065</u>		<u>\$ 1,507,767</u>	

# ***Schedule of Expenditures of Federal Awards***

## ***For the Year Ended September 30, 2006***

<b>Federal Grantor/ Pass-Through Agency/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>
<b><u>TENNESSEE VALLEY AUTHORITY</u></b>		
<b><u>Other Federal Assistance</u></b>		
Biological Assessment	62.Unknown	\$ 33,041
Other Federal Assistance-TVA	62.Unknown	657,000
Total Tennessee Valley Authority		<u>690,041</u>
<b><u>DEPARTMENT OF VETERANS AFFAIRS</u></b>		
Grants to States for Construction of State Home Facilities	64.005	354,631
Veterans State Nursing Home Care	64.015	9,538,885
SAA Contract Number V101(223C)P-4600	64.Unknown	252,231
Total Veterans Affairs		<u>10,145,747</u>
<b><u>ENVIRONMENTAL PROTECTION AGENCY</u></b>		
Air Pollution Control Program Support	66.001	180,257
State Indoor Radon Grants	66.032	266,796
Water Pollution Control State, Interstate, and Tribal Program Support	66.419	3,389,500
State Public Water System Supervision	66.432	1,084,355
State Underground Water Source Protection	66.433	193,150
Water Quality Management Planning	66.454	228,191
Nonpoint Source Implementation Grants	66.460	5,077,587
Water Quality Cooperative Agreements	66.463	12,085
Beach Monitoring and Notification Program Implementation Grants	66.472	458,628
Water Protection Grants to the States	66.474	89,136
Gulf of Mexico Program	66.475	82,928
Water Pollution Control-Research, Development and Demonstration	66.505	256,790
Performance Partnership Grants	66.605	799,817
Surveys, Studies, Investigations, and Special Purpose Grants	66.606	529,432
Training and Fellowships for the Environmental Protection Agency	66.607	1,156,469
Environmental Information Exchange Network Grant Program and Related Assistance	66.608	127,118
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	\$ 96,583

(M) - Denotes Major Programs

Expenditures	Note	Pass-Through to Subrecipients	Agency
\$ 32,876		\$ -	Geological Survey
730,744		399,750	Emergency Management Agency
<u>763,620</u>		<u>399,750</u>	
354,631			Veterans' Affairs
9,538,885			Veterans' Affairs
275,382			Postsecondary Education
<u>10,168,898</u>		<u>-</u>	
46,707			Environmental Management
242,944			Public Health
3,389,500			Environmental Management
943,366			Environmental Management
205,072			Environmental Management
147,634		127,502	Environmental Management
4,850,576		2,574,124	Environmental Management
-			Environmental Management
422,405			Environmental Management
104,395			Environmental Management
118,702			Environmental Management/Geological Survey
49,979			Environmental Management
896,142			Agriculture and Industries
552,826			Environment Management/Geological Survey
876,169			Environmental Management/Attorney General's Office
235,384			Environmental Management
\$ 170,927		\$	Environmental Management

# ***Schedule of Expenditures of Federal Awards***

## ***For the Year Ended September 30, 2006***

<b>Federal Grantor/ Pass-Through Agency/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	\$ 494,198
Pollution Prevention Grants Program	66.708	55,964
Hazardous Waste Management State Program Support	66.801	3,526,290
Superfund State, Political Subdivisions, and Indian Tribe Site - Specific Cooperative Agreements	66.802	583,696
State and Tribal Underground Storage Tanks Program	66.804	280,012
Leaking Underground Storage Tank Trust Fund Program	66.805	1,039,036
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809	136,479
State and Tribal Response Program Grants	66.817	994,019
Total Environmental Protection Agency		<u>21,138,516</u>
<b><u>DEPARTMENT OF ENERGY</u></b>		
State Energy Program	81.041	553,117
Weatherization Assistance for Low-Income Persons	81.042	2,704,154
Regional Biomass Energy Programs	81.079	1,235
Transport of Transuranic Wastes to the Waste Isolation Pilot Plant: States and Tribal Concerns, Proposed Solutions	81.106	92,999
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	34,504
State Energy Program Special Projects	81.119	44,859
<b><u>Other Federal Assistance</u></b>		
Citronelle	81.Unknown	49,197
Crude Oil Refund	81.Unknown	170,875
Exxon	81.Unknown	(33,076)
Second Stage	81.Unknown	67,355
Strip Oil	81.Unknown	214,908
Texaco	81.Unknown	189,175
DOE Fracture Modeling	81.Unknown	163,231
Total Department of Energy		<u>4,252,533</u>
<b><u>DEPARTMENT OF EDUCATION</u></b>		
Adult Education - State Grant Program (M)	84.002	8,341,356
Title I Grants to Local Educational Agencies (M)	84.010	199,913,972
Migrant Education - State Grant Program (M)	84.011	2,437,326
Title I Program for Neglected and Delinquent Children	84.013	\$ 830,828

(M) - Denotes Major Programs

Expenditures	Note	Pass-Through to Subrecipients	Agency
\$ 376,662		\$	Public Health
97,626			Environmental Management
3,408,584			Environmental Management
259,373			Environmental Management
235,273			Environmental Management
833,225			Environmental Management
179,993			Environmental Management
1,138,461			Environmental Management
<u>19,781,925</u>		<u>2,701,626</u>	
547,092		136,360	Economic and Community Affairs
2,713,279		2,513,581	Economic and Community Affairs
1,260			Economic and Community Affairs
119,835			Emergency Management Agency
42,697		30,929	Economic and Community Affairs
44,401		43,159	Economic and Community Affairs
22,010		21,410	Economic and Community Affairs
-			Economic and Community Affairs
109,025		109,025	Economic and Community Affairs
58,353		56,753	Economic and Community Affairs
172,617		73,501	Economic and Community Affairs
115,388		114,716	Economic and Community Affairs
166,044		36,186	Geological Survey
<u>4,112,001</u>		<u>3,135,620</u>	
8,881,840		8,220,491	Post Secondary Education
199,898,912		196,816,384	Education
2,437,138		2,126,216	Education
\$ 830,807		\$ 829,614	Education

# ***Schedule of Expenditures of Federal Awards For the Year Ended September 30, 2006***

<b>Federal Grantor/ Pass-Through Agency/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>
<b><u>Special Education Cluster</u></b>		
Special Education - Grants to States	84.027	\$ 175,491,564
Special Education - Preschool Grants	84.173	5,809,048
Total Special Education Cluster		<u>181,300,612</u>
Federal Family Education Loans	84.032	232,692
Vocational Education - Basic Grants to States	84.048	20,378,160
Grants to States for State Student Incentives	84.069A	447,388
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	62,197,331
Rehabilitation Services - Client Assistance Program	84.161	105,286
Independent Living - State Grants	84.169	301,477
Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind	84.177	510,116
Special Education - Grants For Infants and Families With Disabilities	84.181	7,545,824
Safe and Drug-Free Schools and Communities - National Programs	84.184	199,190
Project Serve	84.184	113,580
Byrd Honors Scholarships	84.185	581,250
Safe and Drug-Free Schools and Communities - State Grants	84.186	6,645,217
Supported Employment Services for Individuals With Severe Disabilities	84.187	392,996
Education for Homeless Children and Youth	84.196	1,060,518
Even Start - State Educational Agencies	84.213	3,147,236
Fund for the Improvement of Education	84.215	177,542
Assistive Technology	84.224A	496,126
Assistive Technology - Alternative Feeding	84.224C	679,864
Tech-Prep Education	84.243	1,958,757
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265	190,821
Ready to Teach	84.286	21,098
Twenty-First Century Community Learning Centers	84.287	14,205,457
State Grants for Innovative Programs	84.298	\$ 3,405,339

(M) - Denotes Major Programs

Expenditures	Note	Pass-Through to Subrecipients	Agency
\$ 175,572,658		\$ 169,573,433	Education
5,811,468		5,588,515	Education
<u>181,384,126</u>		<u>175,161,948</u>	
232,692			Higher Education Loan Corporation
20,377,883		17,701,243	Education
447,388			Commission on Higher Education
61,230,299	3F		Rehabilitation Services
105,286			Rehabilitation Services
301,477			Rehabilitation Services
510,116			Rehabilitation Services
7,545,774		359,178	Rehabilitation Services
199,190		199,190	Education
113,580		70,000	Education
590,250		590,250	Education
6,597,684		5,974,432	Education/Economic and Community Affairs
392,996			Rehabilitation Services
1,060,518		1,006,362	Education
3,146,642		3,037,926	Education
193,965		161,377	Education
496,126			Rehabilitation Services
679,864			Rehabilitation Services
1,958,757		1,762,613	Education
190,821			Rehabilitation Services
24,923		24,903	Education
14,222,514		13,557,764	Education
\$ 3,407,156		\$ 3,215,150	Education

# ***Schedule of Expenditures of Federal Awards***

## ***For the Year Ended September 30, 2006***

<b>Federal Grantor/ Pass-Through Agency/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>
Education Technology State Grants	84.318	\$ 7,745,830
Special Education - State Personnel Development	84.323	984,637
Advanced Placement Program	84.330	26,000
Comprehensive School Reform Demonstration	84.332	2,756,082
Vocational Education-Occupational and Employment Information State Grants	84.346	148,929
Reading First State Grants	84.357	17,950,165
Rural Education (M)	84.358	5,362,912
English Language Acquisition Grants	84.365	2,928,517
Mathematics and Science Partnership	84.366	2,306,817
Improving Teacher Quality State Grants	84.367	47,907,385
Improving Teacher Quality State Grants	84.367B	1,265,657
Grants for State Assessments and Related Activities	84.369	5,337,996
Hurricane Education Recovery - Restart (M)	84.938	1,037,090
Hurricane Education Recovery - Impact Aid (M)	84.938	36,484,825
Total Department of Education		<u>650,060,201</u>
<b><u>ELECTIONS ASSISTANCE COMMISSION</u></b>		
Help America Vote Act 2002 Requirements Payments (Title II) (M)	90.401	978,214
<b><u>DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>		
Public Health and Social Services Emergency Fund	93.003	470,443
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006	113,800
Special Programs for the Aging - Title VII, Chapter 3: Programs for Prevention of Elder Abuse, Neglect and Exploitation	93.041	104,465
Special Programs for the Aging - Title VII, Chapter 2: Long-Term Care Ombudsman Services for Older Individuals	93.042	244,860
Special Programs for the Aging - Title III, Part D: Disease Prevention and Health Promotion Services	93.043	389,307
<b><u>Aging Cluster</u></b>		
Special Programs for the Aging - Title III, Part B: Grants for Supportive Services and Senior Centers	93.044	5,566,430
Special Programs for the Aging - Title III, Part C: Nutrition Services	93.045	8,839,593
Nutrition Services Incentive Program	93.053	2,658,076
Total Aging Cluster (M)		<u>\$ 17,064,099</u>

(M) - Denotes Major Programs



<b>Expenditures</b>	<b>Note</b>	<b>Pass-Through to Subrecipients</b>	<b>Agency</b>
\$ 7,741,753		\$ 7,364,996	Education
984,737			Education
26,000		26,000	Education
2,756,082		2,559,405	Education
102,110			Education
17,948,646		17,220,808	Education
5,374,927		5,232,024	Education
2,928,517		2,872,388	Education
2,306,817		2,306,817	Education
47,913,306		46,907,929	Education
1,265,657			Commission on Higher Education
5,328,065			Education
1,037,090		1,037,090	Education
36,484,825		36,484,825	Education
<u>649,657,256</u>		<u>552,827,323</u>	
7,446,900	3I	-	Secretary of State
88,371			Public Health
114,911		30,000	Public Health
104,466		104,466	Senior Services
244,858		244,858	Senior Services
363,024		346,239	Senior Services
5,641,610		5,326,834	Senior Services
8,874,700		8,590,657	Senior Services
2,658,076		2,658,076	Senior Services
<u>\$ 17,174,386</u>		<u>\$ 16,575,567</u>	

# ***Schedule of Expenditures of Federal Awards***

## ***For the Year Ended September 30, 2006***

<b>Federal Grantor/ Pass-Through Agency/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>
Special Programs for the Aging - Title IV and Title II - Discretionary Projects	93.048	\$ 241,000
Alzheimer's Disease Demonstration Grants to States	93.051	268,832
National Family Caregiver Support (M)	93.052	3,041,658
Maternal and Child Health Federal Consolidated Programs	93.110	279,250
AIDS Comprehensive Care/Preventative Program-Hemophilia of Georgia	93.110B	35,046
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	1,097,900
Emergency Medical Services for Children	93.127	157,400
Primary Care Services Resource Coordination and Development	93.130	217,100
Injury Prevention and Control Research and State and Community Based Programs	93.136	846,500
Projects for Assistance in Transition from Homelessness (PATH)	93.150	440,595
Disabilities Prevention	93.184	(12,390)
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	559,167
Family Planning - Services	93.217	5,088,000
Consolidated Knowledge Development and Application (KD&A) Program	93.230	51,365
Traumatic Brain Injury State Demonstration Program	93.234B	9,236
Abstinence Education Program	93.235	729,236
State Capacity Building	93.240	173,000
State Rural Hospital Flexibility Program	93.241	435,400
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	1,666,052
Universal Newborn Hearing Screening	93.251	88,000
State Planning Grants Health Care Access for the Uninsured	93.256	151,700
Rural Access to Emergency Devices Grant	93.259	150,400
Immunization Grants (M)	93.268	28,579,145
Centers for Disease Control and Prevention - Investigations and Technical Assistance (M)	93.283	26,629,223
Small Rural Hospital Improvement Grant Program	93.301	249,900
Ruminant Feed Ban Support Project	93.449	\$ 25,346

(M) - Denotes Major Programs

Single Audit of Federal  
Financial Assistance Programs  
State of Alabama

<b>Expenditures</b>	<b>Note</b>	<b>Pass-Through to Subrecipients</b>	<b>Agency</b>
\$ 118,255		\$ 85,393	Senior Services
242,226		242,226	Senior Services
2,832,478		2,714,177	Senior Services
262,993		32,695	Public Health/Rehabilitation Services
30,571			Rehabilitation Services
1,094,595			Public Health
155,692			Public Health
210,245			Public Health
839,085		671,773	Public Health
440,595		440,595	Mental Health and Mental Retardation
-			Mental Health and Mental Retardation
557,169		337,914	Public Health
5,087,020		1,192,667	Public Health
51,902			Mental Health and Mental Retardation
9,486			Rehabilitation Services
735,492		548,739	Public Health
165,695			Public Health
433,091		425,588	Public Health
2,237,528		2,080,260	Mental Health and Mental Retardation/ Economic and Community Affairs
88,659		6,851	Public Health
151,641			Public Health
150,434		137,190	Public Health
28,487,096	3G	21,064,967	Public Health
26,939,597		3,300,990	Public Health/Emergency Management Agency
249,294		239,571	Public Health
\$ 31,250		\$ -	Agriculture and Industries

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2006***

<b>Federal Grantor/ Pass-Through Agency/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>
Promoting Safe and Stable Families	93.556	\$ 10,934,167
Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless and Street Youth	93.557	50,000
Temporary Assistance for Needy Families (TANF) (M)	93.558	106,551,732
Child Support Enforcement	93.563	43,148,484
Low-Income Home Energy Assistance (M)	93.568	30,057,752
Community Services Block Grant	93.569	11,145,930
Community Services Block Grant Formula and Discretionary Awards Community Food and Nutrition Programs	93.571	73,229
<b><u>Child Care Development Cluster</u></b>		
Child Care and Development Block Grant	93.575	40,385,267
Child Care Mandatory and Matching Funds of Child Care and Development Fund	93.596	38,729,492
Total Child Care Development Cluster (M)		<u>79,114,759</u>
Refugee and Entrant Assistance - Discretionary Grants	93.576	43,400
Empowerment Zones Program	93.585	335,347
State Court Improvement Program	93.586	197,345
Community-Based Child Abuse Prevention Grants	93.590	420,372
Grants to States for Access and Visitation Programs	93.597	248,856
Chafee Education and Training Vouchers Program (ETV)	93.599	566,199
Head Start	93.600	175,000
Child Support Enforcement Demonstrations and Special Projects	93.601	100,000
Adoption Incentive Payments	93.603	535,985
Mentoring Children of Prisoners	93.616	1,589,500
Developmental Disabilities Basic Support and Advocacy Grants	93.630	1,485,069
Developmental Disabilities Projects of National Significance	93.631	\$ 3,173

(M) - Denotes Major Programs

<b>Expenditures</b>	<b>Note</b>	<b>Pass-Through to Subrecipients</b>	<b>Agency</b>
\$ 9,161,733		\$ -	Human Resources
50,000		50,000	Child Abuse and Neglect Prevention Board
96,797,471	3H	13,109,201	Human Resources
37,031,745			Human Resources
30,015,156		28,756,650	Economic and Community Affairs
11,078,683		10,468,322	Economic and Community Affairs
73,229		73,229	Economic and Community Affairs
55,096,936			Human Resources
37,078,863		5,118,409	Human Resources
92,175,799		5,118,409	
39,886		32,749	Public Health
341,406		336,201	Economic and Community Affairs
197,345			Administrative Office of Courts
420,372		420,372	Child Abuse and Neglect Prevention Board
248,856			Administrative Office of Courts
529,678			Human Resources
175,000			Children's Affairs
100,000		100,000	Child Abuse and Neglect Prevention Board
385,633			Human Resources
972,242		956,775	Child Abuse and Neglect Prevention Board/ Attorney General's Office
1,506,850		1,163,462	Mental Health and Mental Retardation
\$ 3,173		\$ 3,173	Mental Health and Mental Retardation

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2006***

<b>Federal Grantor/ Pass-Through Agency/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>
Children's Justice Grants to States	93.643	\$ 203,905
Child Welfare Services - State Grants	93.645	6,180,293
Foster Care - Title IV-E (M)	93.658	16,325,750
Adoption Assistance	93.659	7,714,800
Social Services Block Grant (M)	93.667	26,489,423
Child Abuse and Neglect State Grants	93.669	390,869
Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671	1,449,187
Chafee Foster Care Independence Program	93.674	3,263,303
State Children's Insurance Program	93.767	91,945,244
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	149,767
<b>Medicaid Cluster</b>		
State Medicaid Fraud Control Units	93.775	590,527
Hurricane Katrina Relief	93.776	93,039,185
State Survey and Certification of Health Care Providers and Suppliers	93.777	6,277,650
Medical Assistance Program	93.778	2,875,273,295
Total Medicaid Cluster (M)		<u>2,975,180,657</u>
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	885,096
National Bioterrorism Hospital Preparedness Program	93.889	8,873,395
Grants to States for Operation of Offices of Rural Health	93.913	133,600
HIV Care Formula Grants	93.917	12,404,406
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	(1,271)
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	267,614
HIV Prevention Activities - Health Department Based	93.940	2,992,100
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	934,200
Assistance Programs for Chronic Disease Prevention and Control	93.945	\$ 780,700

(M) - Denotes Major Programs

Expenditures	Note	Pass-Through to Subrecipients	Agency
\$ 327,366		\$ -	Human Resources
4,945,425			Human Resources
20,311,272			Human Resources
7,561,479			Human Resources
43,555,549		5,534,687	Human Resources
347,422			Human Resources
1,447,985		1,364,544	Economic and Community Affairs
1,697,201			Human Resources
91,638,904		103,457	Public Health
180,005			Rehabilitation Services
589,696			Attorney General
93,014,513			Alabama Medicaid Agency/Public Health
6,135,602			Alabama Medicaid Agency/Public Health
2,879,642,634			Alabama Medicaid Agency
<u>2,979,382,445</u>			
910,291		814,112	Senior Services/Public Health/ Mental Health and Mental Retardation
8,771,171		5,856,109	Public Health
121,212			Public Health
12,321,535		2,001,948	Public Health
-		-	Public Health
267,642		-	Education
3,007,432		467,346	Public Health
923,584		76,389	Public Health
\$ 638,815		\$ 262,414	Public Health

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2006***

<b>Federal Grantor/ Pass-Through Agency/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946	\$ 129,820
Trauma Care Systems Planning and Development	93.952	23,100
Block Grants for Community Mental Health Services	93.958	3,748,138
Olmstead Grant	93.958S	20,000
Block Grants for Prevention and Treatment of Substance Abuse	93.959	22,878,925
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	2,115,700
Mental Health Disaster Assistance and Emergency Mental Health	93.982	651,193
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	226,500
Preventive Health and Health Services Block Grant (M)	93.991	1,155,000
Maternal and Child Health Services Block Grant to the States	93.994	11,705,419
<b><u>Other Federal Assistance</u></b>		
CLIA	93.Unknown	313,000
Mammography Quality Standards-HHS Contract 223-95-4400	93.Unknown	124,358
Tennessee Valley Authority-Contract TV-62313A	93.Unknown	99,000
Food Inspections-Contract 223-96-4036	93.Unknown	95,555
OASIS	93.Unknown	39,800
Katrina Relief Project	93.Unknown	66,660
Drug and Alcohol Services Information System	93.Unknown	65,682
Total Department of Health and Human Services		<u>3,576,382,222</u>
<b><u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u></b>		
State Commissions	94.003	271,461
Learn and Serve America - School and Community Based Programs	94.004	356,345
AmeriCorps	94.006	848,238
Planning and Program Development Grants	94.007	28,245
Training and Technical Assistance	94.009	94,399
Volunteers in Service to America	94.013	19,999
Total Corporation for National and Community Service		<u>\$ 1,618,687</u>

(M) - Denotes Major Programs



Expenditures	Note	Pass-Through to Subrecipients	Agency
\$ 131,360		\$ -	Public Health
22,243			Public Health
3,680,411		3,672,925	Mental Health and Mental Retardation
30,000		30,000	Mental Health and Mental Retardation
23,084,963		22,097,814	Mental Health and Mental Retardation
2,131,353		254,309	Public Health
651,193		651,050	Mental Health and Mental Retardation
212,794			Public Health
1,113,356		146,922	Public Health
11,722,668		1,338,838	Public Health
328,397			Public Health
123,829			Public Health
109,743			Public Health
97,559			Public Health
48,054			Public Health
66,660		66,660	Public Health
88,603		-	Mental Health and Mental Retardation
<u>3,592,996,283</u>		<u>156,150,793</u>	
215,011		-	Governor's Office of Faith-Based and Community Initiatives
346,345		302,380	Education
839,845		839,845	Governor's Office of Faith-Based and Community Initiatives
28,071			Governor's Office of Faith-Based and Community Initiatives
82,096			Governor's Office of Faith-Based and Community Initiatives
19,643			Governor's Office of Faith-Based and Community Initiatives
<u>\$ 1,531,011</u>		<u>\$ 1,142,225</u>	

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2006***

<b>Federal Grantor/ Pass-Through Agency/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>
<b><u>SOCIAL SECURITY ADMINISTRATION</u></b>		
Social Security - Disability Insurance (M)	96.001	\$ 38,308,160
Social Security - Work Incentives Planning and Assistance Program	96.008	206,624
Total Social Security Administration		<u>38,514,784</u>
<b><u>DEPARTMENT OF HOMELAND SECURITY</u></b>		
<b><u>Homeland Security Cluster</u></b>		
State Domestic Preparedness Equipment Support Program	16.007	11,044,781
State Domestic Preparedness Equipment Support Program	97.004	24,551,631
Homeland Security Grant Program	97.067	8,571,765
Total Homeland Security Cluster (M)		<u>44,168,177</u>
Boating Safety	97.011	1,957,913
Hazardous Materials Training Program	97.020	448
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023	121,283
Emergency Food and Shelter National Board Program	97.024	77,470
Flood Mitigation Assistance	97.029	23,897
Crisis Counseling	97.032	1,854,708
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (M)	97.036	118,275,494
Hazard Mitigation Grant (M)	97.039	9,249,522
Chemical Stockpile Emergency Preparedness Program (CSEPP) (M)	97.040	37,028,040
Emergency Management Performance Grants	97.042	2,916,120
Cooperating Technical Partners	97.045	379,553
Pre-Disaster Mitigation (PDM)	97.047	80,947
Homeland Security Information Technology and Evaluation Program	97.066	725,446
Map Modernization Management Support	97.070	172,305
Buffer Zone Protection Plan (BZPP)	97.078	318,365
Total Department of Homeland Security		<u>217,349,688</u>
TOTAL FEDERAL AWARDS		<u>\$6,845,011,796</u>

(M) - Denotes Major Programs

<b>Expenditures</b>	<b>Note</b>	<b>Pass-Through to Subrecipients</b>	<b>Agency</b>
\$ 38,143,193		\$ -	Education
220,342		-	Rehabilitation Services
<u>38,363,535</u>		<u>-</u>	
11,301,442		10,416,342	Homeland Security
24,269,692		13,587,645	Homeland Security/Emergency Management Agency
8,577,765		6,851,379	Homeland Security
<u>44,148,899</u>		<u>30,855,366</u>	
-			Conservation and Natural Resources
448			Emergency Management Agency
130,690		-	Economic and Community Affairs
83,130			Human Resources
16,693		16,467	Emergency Management Agency
1,854,708			Emergency Management Agency
118,080,886		116,417,153	Emergency Management Agency
9,360,752		8,531,668	Emergency Management Agency
38,522,135		29,965,358	Emergency Management Agency
3,750,752		2,223,891	Emergency Management Agency/Transportation
379,582			Economic and Community Affairs
79,702		121,511	Emergency Management Agency
699,592			Homeland Security/Emergency Management Agency
176,449			Economic and Community Affairs
318,365		318,365	Homeland Security
<u>217,602,783</u>		<u>188,449,779</u>	
<u>\$6,812,059,765</u>		<u>\$ 1,303,054,531</u>	

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# *Notes to the Schedule of Expenditures of Federal Awards*

## *For the Year Ended September 30, 2006*

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### **Note 1 – Purpose of the Schedule**

Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, requires a Schedule of Expenditures of Federal Awards showing total expenditures for each federal financial assistance program identified in the Catalog of Federal Domestic Assistance (CFDA).

### **Note 2 – Significant Accounting Policies**

- A. **Reporting Entity** – The accompanying schedule includes federal financial assistance programs administered by the State of Alabama for the fiscal year ended September 30, 2006. State agencies that receive separate audits in accordance with OMB Circular A-133 and federal financial assistance received by state colleges and universities are not included in the schedule.
- B. **Basis of Presentation** – The information in the accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133.
1. **Federal Financial Assistance** – Pursuant to the Single Audit Act Amendments of 1996 and OMB Circular A-133, federal financial assistance is defined as assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.
  2. **Major Programs** – For the State of Alabama, a Type A program is defined as a program or cluster of programs for which total annual expenditures of federal awards exceeds \$20,436,179. Major programs consist of eighteen Type A programs and clusters and thirteen high-risk Type B programs. Major programs comprise 69.53% of total federal program expenditures.
- C. **Basis of Accounting** – The information presented in the Schedule of Expenditures of Federal Awards is presented on the cash basis of accounting, which is consistent with the other federal grant reports. Under this basis, expenditures are recorded when paid, and revenues are recognized when received. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.
- D. **Expenditures and Expenses** – When monies are received by one state agency and transferred to another state agency either for final expenditure or as a reimbursement for services, the federal financial assistance is reflected in the primary receiving/expending state agency's accounts. This is to avoid duplication and the overstatement of the aggregate level of federal financial assistance expended by the State of Alabama.

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***Notes to the Schedule of Expenditures  
of Federal Awards  
For the Year Ended September 30, 2006***

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**Note 3 – Other**

- A. Commodities (Food Distribution CFDA #10.550, Summer Food Service Program for Children CFDA #10.559, and a portion of the Temporary Emergency Food Assistance Program CFDA #10.569) are included in the definition of federal financial assistance for the purpose of the accompanying schedule. Commodities, totaling \$22,114,211, were reported in accordance with GASB Statement Number 24 in the basic financial statements of the State of Alabama for the fiscal year ended September 30, 2006.
- B. During the fiscal year ended September 30, 2006, the Alabama Department of Public Health received \$29,716,577 in cash rebates from infant formula manufacturers on sales of formula to participants in the WIC Program (CFDA #10.557). Rebate contracts with infant formula manufacturers are authorized by 7 CFR 246.16(m) as a cost containment measure. Rebates represent a reduction of expenditures previously incurred for WIC food benefits costs. The rebate contract allowed the Department to serve 37,572 more persons during the 2005-2006 fiscal year. This number is based on an average gross food package cost of \$65.91.
- C. The Community Development Block Grant-Section 108 Loan Guarantee Program (CFDA #14.248) had no new loans during the 2005-2006 fiscal year and an outstanding loan balance of \$7,200,000 at September 30, 2006.
- D. Total expenditures for the Unemployment Insurance Program (CFDA #17.225) include state and federal amounts of \$218,857,634 and \$39,277,408, respectively. The state portion of expenditures includes regular unemployment compensation. The federal portion includes administrative costs and unemployment compensation for ex-service members, former federal employees, and extended benefits for eligible individuals who have exhausted their regular unemployment compensation.
- E. Donation of Federal Surplus Personal Property (CFDA #39.003) is valued at 23.3% of the acquisition costs in accordance with a directive from the U. S. General Services Administration.
- F. Receipts and expenditures reported on the schedule include \$1,877,997 and \$1,886,450, respectively, of Social Security Administration reimbursements under the Rehabilitation Services - Vocational Rehabilitation Grants to States Program (CFDA #84.126).

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***Notes to the Schedule of Expenditures  
of Federal Awards  
For the Year Ended September 30, 2006***

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- G. The amount reported as receipts and expenditures for the Immunization Grants Program (CFDA #93.268) includes the value of immunization vaccines received and distributed in the amount of \$24,277,623 during the 2005-2006 fiscal year.
- H. Federal receipts for the Child Support Enforcement Program (CFDA #93.563) include the federal share of child support collected on behalf of recipients of assistance payments. Collections were \$6,717,971 during the 2005-2006 fiscal year.
- I. Interest income of \$130,936 was earned on Help America Vote Act Title I funds (CFDA #39.011), and interest income of \$978,214 was earned on Help America Vote Act Title II funds (CFDA #90.401). These amounts are reported as receipts on the schedule.

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## ***Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards***

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We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Alabama, as of and for the year ended September 30, 2006, which collectively comprise the State of Alabama's basic financial statements, and have issued our report thereon dated March 31, 2007. Our report was modified to include a reference to other auditors. Below is a list which indicates the financial statements of the agencies and funds audited by other auditors and whether the audits were performed in accordance with ***Government Auditing Standards***.

Agencies/Funds Audited by Other Auditors	Audit Performed in Accordance with <b><i>Government Auditing Standards</i></b>	Audit Not Performed in Accordance with <b><i>Government Auditing Standards</i></b>
Alabama Educational Television Foundation Authority	X	
Alabama Public Health Care Authority	X	
Alabama Health Insurance Plan	X	
Alabama State Port Authority	X	
State Employees' Insurance Board		X
Public Education Employees' Health Insurance Fund		X
Alabama Housing Finance Authority	X	
Alabama Water Pollution Control Authority	X	
Space Science Exhibit Commission	X	
Alabama Drinking Water Finance Authority	X	
Alabama Higher Education Loan Corporation		X
University of Alabama	X	
Auburn University	X	
University of South Alabama	X	
University of Montevallo	X	
Retirement Systems of Alabama		X
Employees' Savings Plans (PEIRAF and RSA-1)		X
Prepaid Affordable College Tuition Program	X	
Alabama College Education Savings Plan		X

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# ***Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards***

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We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States. As indicated above, other auditors audited the financial statements of certain agencies and funds in accordance with ***Government Auditing Standards***. This report does not include the results of those other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

## **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the State of Alabama's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Alabama's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described below.

## **STATUS OF PRIOR AUDIT FINDINGS**

Findings related to internal control weaknesses in the area of information technology have been included in our audits of the State of Alabama Comprehensive Annual Financial Reports issued since 1990. Although substantial corrective actions have been implemented, some reportable conditions related to information technology continue to exist. Several agencies, including the Department of Finance, have made significant progress in resolving the problems identified in prior audit findings, and currently several initiatives are in process that could substantially resolve the remaining conditions. Details of these findings have been communicated to the affected state agencies. The findings are being presented in summary form in this report for security reasons.

## **Finding 01-01-01 - Contingency Planning and Disaster Recovery**

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to be able to continue operations in the event the information technology resources of those agencies were adversely affected by man-made or natural disasters. Critical information technology resources and the related government functions served by those resources are at risk because of weaknesses in the control policies and procedures affecting contingency planning.



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# ***Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards***

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The Department of Finance has made arrangements for an alternate backup processing facility that could be used in the event the primary processing facilities were destroyed or temporarily inaccessible. However, several agencies have not initiated implementation of the new alternate backup processing facilities and did not have policies and procedures to be followed in the event of a disaster. The following agencies did not have adequate contingency planning and disaster recovery policies and procedures in place:

Department of Human Resources  
Department of Education  
Department of Economic and Community Affairs  
Office of the State Treasurer  
Department of Mental Health and Mental Retardation  
Alcoholic Beverage Control Board

## **Recommendation**

State agencies should develop comprehensive policies and procedures to be followed in the event of a natural or man-made disaster. These disaster recovery plans should be tested and should include alternate processing facilities to be used in the event the primary processing facility is destroyed or inaccessible.

## **Finding 01-01-02 - Information Access Security**

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to provide appropriate security for computer data and programs through the proper use of security software features and management policies. Computer data and programs are at risk of loss and corruption through error or intentional act. The following agencies did not have adequate policies and procedures in place for access security:

Department of Finance – Information Services Division  
Department of Finance – FRMS Application Development Section

## **Recommendation**

Agencies should use management policies and security software to detect errors or intentional unauthorized acts and also to ensure errors and unauthorized acts are corrected in a timely manner.

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# ***Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards***

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## **Finding 01-01-04 - Application Development and Maintenance**

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to provide assurance that only authorized computer application programs are developed or modified and that such programs and modifications function as intended and meet the needs of users. State agencies do not follow formal system development methodologies for new computer applications, modifications to existing applications, or emergency modifications. This increases the risk that unauthorized programs or changes will be made, programs or changes will not be tested, and programs or changes will not function as intended to meet user needs. State agencies do not adequately segregate the duties of personnel to prevent such errors from occurring. The following agencies did not have adequate policies and procedures in place for application development and maintenance:

Department of Finance – Information Services Division  
Department of Finance – FRMS Application Development Section  
Office of the State Treasurer

## **Recommendation**

State agencies should develop formal system development methodologies for new computer programs, modifications to existing programs, and emergency modifications. These methodologies should ensure that only authorized projects are initiated and such projects achieve the desired results. State agencies should adequately segregate the duties of employees to achieve the proper level of control of projects and to ensure that an employee does not perform conflicting duties.

## **Finding 01-01-05 - Physical Security**

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to provide assurance that critical computer hardware and software were protected from unauthorized physical access. Although the Computer Services Bureau of the Department of Transportation implemented procedures to correct the previous finding to the extent possible, the Equipment Procurement and Services Bureau, which is responsible for the physical security of the central office building, did not have adequate policies and procedures in place for physical security over critical operations of the Department.

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# ***Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards***

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## **Recommendation**

State agencies should develop policies and procedures to ensure that areas containing critical hardware or sensitive information is restricted to only those employees with a legitimate need to be in such areas. State agencies should develop policies and procedures to ensure that only authorized employees possess access devices or pass codes to gain entry to restricted areas.

## **Finding 01-01-06 - Hiring, Training, and Personnel Policies**

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to provide assurance that employees hired to work in sensitive areas (i.e., the information technology environment) had the proper education and training necessary to perform the required duties and that such employees indicated no evidence of prior actions that might have a negative impact on the required duties. The Department of Transportation did not obtain evidence that prospective employees to be hired for sensitive work had not been involved in prior criminal activity that might have a negative impact on the employee's ability to perform the required duties.

## **Recommendation**

The Department of Transportation should develop policies and procedures to ensure that employees are not hired that have a history of criminal activity that may have a negative impact on the employee's ability to perform sensitive duties.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

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# ***Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards***

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## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State of Alabama's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***. We noted certain additional matters that we have reported to management of the State of Alabama and the affected agencies and funds in separate communications.

This report is intended solely for the information and use of management and other state officials and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

March 31, 2007

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## ***Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133***

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### **Compliance**

We have audited the compliance of the State of Alabama with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The State of Alabama's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State of Alabama's management. Our responsibility is to express an opinion on the State of Alabama's compliance based on our audit.

The State of Alabama's basic financial statements include the operations of the Housing Finance Authority, the Water Pollution Control Authority, the Alabama Drinking Water Finance Authority, and Educational Television Commission/Alabama Public Television Foundation that are component units of the State of Alabama. The federal awards expended by these component units are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2006. Our audit, described below, did not include the operations of these component units because other auditors were engaged to perform audits in accordance with OMB Circular A-133. The federal programs administered by these component units and the federal funds expended are as follows:

Component Unit	Federal Program	CFDA Number	Federal Expenditures
Housing Finance Authority	Home Investment Partnerships Program	14.239	\$10,146,747
Water Pollution Control Authority	Capitalization Grants for State Revolving Funds	66.458	\$26,058,751
Drinking Water Finance Authority	Capitalization Grants for Drinking Water - State Revolving Funds	66.468	\$ 7,751,421
Educational Television Commission/Alabama Public Television Foundation	E Learning for Educators	84.269A	\$ 2,320,675
	Read to Lead in Literacy	84.338	\$ 3,252,909
	Public Telecommunications Facilities Program	11.550	\$ 206,359

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## ***Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133***

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We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Alabama's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Alabama's compliance with those requirements.

As described in item 06-2-1, in the accompanying Schedule of Findings and Questioned Costs, the State of Alabama did not comply with requirements regarding Eligibility that are applicable to its Medicaid Cluster (CFDA #93.775, #93.776, #93.777, and #93.778). Compliance with such requirements is necessary, in our opinion, for the State of Alabama to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Alabama complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

In addition, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 05-6-6.

### **Internal Control Over Compliance**

The management of the State of Alabama is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State of Alabama's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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## ***Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133***

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We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Alabama's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable conditions listed in the table below are described in the accompanying Schedule of Findings and Questioned Costs.

97-9-8	06-2-1	06-4-2	06-5-2	06-6-1
02-1-1	06-2-2	06-4-3	05-6-3	06-13-1
02-2-1	06-3-1	06-4-4	05-6-4	06-17-1
04-2-3	06-4-1	06-5-1	05-6-6	06-17-2

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal controls that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 06-2-1 to be a material weakness.

### **Schedule of Expenditures of Federal Awards**

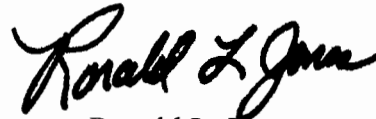
We have audited the basic financial statements of the State of Alabama as of and for the year ended September 30, 2006, and have issued our report thereon dated March 31, 2007. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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## ***Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133***

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This report is intended solely for the information and use of management, other state officials, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

June 29, 2007 except for the  
Schedule of Expenditures of  
Federal Awards, as to which  
the date is March 31, 2007



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***Schedule of Findings and Questioned Costs***  
***Department of Finance***  
***For the Year Ended September 30, 2006***

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**Section I - Summary of Examiner's Results**

**Financial Statements**

Type of opinion issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	_____ Yes <u>  X  </u> No
Reportable conditions identified that are not considered to be material weaknesses?	<u>  X  </u> Yes    _____ None reported
Noncompliance material to financial statements noted?	_____ Yes <u>  X  </u> No

**Federal Awards**

Internal control over major programs:	
Material weaknesses identified?	<u>  X  </u> Yes    _____ No
Reportable conditions identified that are not considered to be material weaknesses?	<u>  X  </u> Yes    _____ None reported
Type of opinion issued on compliance for major programs:	<u>Qualified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	<u>  X  </u> Yes    _____ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.551 and 10.561	Food Stamp Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program
11.419	Costal Zone Management Administration Awards
14.228	Community Development Block Grants/State's Program
15.605 and 15.611	Fish and Wildlife Cluster
16.738	Edward Byrne Memorial Justice Assistance Grant Program

***Schedule of Findings and Questioned Costs***  
***Department of Finance***  
***For the Year Ended September 30, 2006***

Identification of major programs continued:

CFDA Number(s)	Name of Federal Program or Cluster
17.235	Senior Community Service Employment Program
17.258, 17.259 and 17.260	Workforce Investment Act Cluster
84.002	Adult Education – State Grant Program
84.010	Title I Grants to Local Education Agencies
84.011	Migrant Education –State Grant Program
84.358	Rural Education
84.938	Hurricane Katrina – Impact Aid and Restart
90.401	Help America Vote Title II
93.044, 93.045 and 93.053	Aging Cluster
93.052	National Family Caregiver Support
93.268	Immunization Grants
93.283	Centers for Disease Control and Prevention- Investigations and Technical Assistance
93.558	Temporary Assistance for Needy Families
93.568	Low-Income Home Energy Assistance
93.575 and 93.596	Child Care Development Cluster
93.658	Foster Care – Title IV–E
93.667	Social Services Block Grant
93.775, 93.776, 93.777 and 93.778	Medicaid Cluster
93.991	Preventive Health and Health Services Block Grant
96.001	Social Security – Disability Insurance
16.007, 97.004 and 97.067	Homeland Security Cluster
97.036	Public Assistance
97.039	Hazard Mitigation Grant Program
97.040	Chemical Stockpile Emergency Preparedness Program

Dollar threshold used to distinguish between  
Type A and Type B programs:

\$20,436,179

Auditee qualified as low-risk auditee?

\_\_\_\_\_ Yes      X   No

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***Schedule of Findings and Questioned Costs***  
***Department of Finance***  
***For the Year Ended September 30, 2006***

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**Section II – Financial Statement Findings (GAGAS)**

<b>Ref. No.</b>	<b>Type of Finding</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
01-01-01	Internal Control	<p><b><u>Finding 01-01-01 – Contingency Planning and Disaster Recovery</u></b></p> <p>We reviewed the internal control policies and procedures affecting the ability of certain state agencies to be able to continue operations in the event the information technology resources of those agencies were adversely affected by man-made or natural disasters. Critical information technology resources and the related government functions served by those resources are at risk because of weaknesses in the control policies and procedures affecting contingency planning.</p> <p>The Department of Finance has made arrangements for an alternate backup processing facility that could be used in the event the primary processing facilities were destroyed or temporarily inaccessible. However, several agencies have not initiated implementation of the new alternate backup processing facilities and did not have policies and procedures to be followed in the event of a disaster. The following agencies did not have adequate contingency planning and disaster recovery policies and procedures in place:</p> <p>Department of Human Resources  Department of Education  Department of Economic and Community Affairs  Office of the State Treasurer  Department of Mental Health and Mental Retardation  Alcoholic Beverage Control Board</p> <p><b><u>Recommendation</u></b></p> <p>State agencies should develop comprehensive policies and procedures to be followed in the event of a natural or man-made disaster. These disaster recovery plans should be tested and should include alternate processing facilities to be used in the event the primary processing facility is destroyed or inaccessible.</p>	

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***Schedule of Findings and Questioned Costs***  
***Department of Finance***  
***For the Year Ended September 30, 2006***

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**Section II – Financial Statement Findings (GAGAS)**

<b>Ref. No.</b>	<b>Type of Finding</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
01-01-02	Internal Control	<p><b><u>Finding 01-01-02 – Information Access Security</u></b>  We reviewed the internal control policies and procedures affecting the ability of certain state agencies to provide appropriate security for computer data and programs through the proper use of security software features and management policies. Computer data and programs are at risk of loss and corruption through error or intentional act. The following agencies did not have adequate policies and procedures in place for access security::</p> <p>Department of Finance – Information Services Division  Department of Finance – FRMS Application Development Section</p> <p><b><u>Recommendation</u></b>  Agencies should use management policies and security software to detect errors or intentional unauthorized acts and also to ensure errors and unauthorized acts are corrected in a timely manner.</p>	
01-01-04	Internal Control	<p><b><u>Finding 01-01-04 – Application Development and Maintenance</u></b>  We reviewed the internal control policies and procedures affecting the ability of certain state agencies to provide assurance that only authorized computer application programs are developed or modified and that such programs and modifications function as intended and meet the needs of users. State agencies do not follow formal system development methodologies for new computer applications, modifications to existing applications, or emergency modifications. This increases the risk that unauthorized programs or changes will be made, programs or changes will not be tested, and programs or changes will not function as intended to meet user needs. State agencies do not adequately segregate the duties of personnel to prevent such errors from occurring.</p>	

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***Schedule of Findings and Questioned Costs***  
***Department of Finance***  
***For the Year Ended September 30, 2006***

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**Section II – Financial Statement Findings (GAGAS)**

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
		<p><b><u>Finding Continued</u></b>  The following agencies did not have adequate policies and procedures in place for application development and maintenance:</p> <p>Department of Finance – Information Services Division  Department of Finance – FRMS Application Development Section  Office of the State Treasurer</p> <p><b><u>Recommendation</u></b>  State agencies should develop formal system development methodologies for new computer programs, modifications to existing programs, and emergency modifications. These methodologies should ensure that only authorized projects are initiated and such projects achieve the desired results. State agencies should adequately segregate the duties of employees to achieve the proper level of control of projects and to ensure that an employee does not perform conflicting duties.</p>	
01-01-05	Internal Control	<p><b><u>Finding 01-01-05 – Physical Security</u></b>  We reviewed the internal control policies and procedures affecting the ability of certain state agencies to provide assurance that critical computer hardware and software were protected from unauthorized physical access. Although the Computer Services Bureau of the Department of Transportation implemented procedures to correct the previous finding to the extent possible, the Equipment Procurement and Services Bureau, which is responsible for the physical security of the central office building, did not have adequate policies and procedures in place for physical security over critical operations of the Department.</p>	

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***Schedule of Findings and Questioned Costs***  
***Department of Finance***  
***For the Year Ended September 30, 2006***

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**Section II – Financial Statement Findings (GAGAS)**

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
		<u><b>Recommendation</b></u> State agencies should develop policies and procedures to ensure that areas containing critical hardware or sensitive information is restricted to only those employees with a legitimate need to be in such areas. State agencies should develop policies and procedures to ensure that only authorized employees possess access devices or pass codes to gain entry to restricted areas.	
01-01-06	Internal Control	<u><b>Finding 01-01-06 – Hiring, Training, and Personnel Policies</b></u> We reviewed the internal control policies and procedures affecting the ability of certain state agencies to provide assurance that employees hired to work in sensitive areas (i.e., the information technology environment) had the proper education and training necessary to perform the required duties and that such employees indicated no evidence of prior actions that might have a negative impact on the required duties. The Department of Transportation did not obtain evidence that prospective employees to be hired for sensitive work had not been involved in prior criminal activity that might have a negative impact on the employee's ability to perform the required duties.  <u><b>Recommendation</b></u> The Department of Transportation should develop policies and procedures to ensure that employees are not hired that have a history of criminal activity that may have a negative impact on the employee's ability to perform sensitive duties.	

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***Schedule of Findings and Questioned Costs***  
***Department of Finance***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

<b>Ref. No.</b>	<b>CFDA No.</b>	<b>Program</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
02-1-1	N/A	Statewide Cost Allocation Plan	<p><b><u>Finding</u></b></p> <p>OMB Circular A-87, Attachment C, Subsection G.2, provides that an internal service fund may establish and maintain a reasonable level of working capital reserve in addition to the full recovery of costs. A working capital reserve as part of retained earnings of up to sixty days cash expenses for normal operating purposes is considered reasonable.</p> <p>During our testing of the State of Alabama Statewide Cost Allocation Plan, Section II-Direct Billed Costs, it was determined that some Internal Service Funds continue to have working capital reserves in excess of a sixty-day reserve. Our analysis was made using financial statements for the fiscal year ended September 30, 2006. This is considered noncompliance with OMB Circular A-87, Attachment C, Subsection G.2.</p> <p>The following internal service funds had reserves exceeding the sixty-day reserve: the Information Services Division Fund and the Service Division Funds (Motor Pool and Mail and Supply Room), all of which are administered by the Department of Finance.</p>	

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***Schedule of Findings and Questioned Costs***  
***Department of Finance***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

<b>Ref. No.</b>	<b>CFDA No.</b>	<b>Program</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
			<p><b><u>Finding Continued</u></b>  In the fiscal year ending September 30, 2002 corrective action plan submitted by the Department of Finance, the agency stated that future period billing rates would be adjusted to reduce working capital reserves. The agency has taken some steps to reduce the working capital reserves. As stated in the Summary Schedule of Prior Audit Findings for the year ended September 30, 2003, the agency is in the process of negotiating directly with the Department of Health and Human Services regarding the reduction of its reserves. The status of the working capital reserves will be reviewed during the next audit.</p> <p><b><u>Recommendation</u></b>  The Department of Finance should implement corrective action to ensure that billing rates used to charge other departments for services rendered through internal service funds provide for the full recovery of costs and a reasonable level of working capital reserve in accordance with OMB Circular A-87, Attachment C, Subsection G.2.</p>	



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***Schedule of Findings and Questioned Costs***  
***Department of Finance***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			<p><b><u>Disclosure of the Risk Management Purchase of Series 1995-B Bonds from the Alabama Incentives Financing Authority</u></b></p> <p>In August 1995, the Alabama Incentives Financing Authority (AIFA) issued \$30,000,000 of Series 1995-B Capital Appreciation bonds. Proceeds from the sale of the bonds were used to assist new businesses locating in the State.</p> <p>The Division of Risk Management, Fund 0544, is the sole holder of the bonds, which were not publicly sold. The purchase of the bonds was recorded and accounted for as an investment in prior CAFRs. In the 2003-2004 fiscal year, the State of Alabama Department of Finance determined that the transaction would be more appropriately classified as an interfund loan. We concurred with this reclassification.</p>	

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***Schedule of Findings and Questioned Costs***  
***Alabama Medicaid Agency***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

<b>Ref. No.</b>	<b>CFDA No.</b>	<b>Program</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
02-2-1	93.775 93.776 93.777 93.778	U. S. Department of Health and Human Services; Medicaid Cluster	<p><b><u>Finding</u></b>  The U. S. Department of Health and Human Services, Centers for Medicare and Medicaid Services notified the Alabama Medicaid Agency that approval of the State's Medicaid Waiver under section 1915(b)(1) and (4) of the Social Security Act known as the Partnership Hospital Plan (PHP) would expire April 29, 2002. Thereafter, Alabama Medicaid operated the PHP program under the Alabama Medicaid Agency State Plan. Both the Waiver and State Plan provided for a capitation rate that was paid monthly for each Medicaid eligible, instead of payments to hospitals when services were received. Section AL-95-14 of the State Plan pertaining the operation of the Partnership Hospital Plan provides for a specific methodology to calculate the capitation rates. It appears that the capitation rates paid after the Waiver ended were not computed in accordance with provisions of the State Plan, Section AL-95-14.</p> <p><b><u>Recommendation</u></b>  Capitation rates paid under the Partnership Hospital Plan program should be computed in accordance the Alabama Medicaid Agency State Plan, Section AL-95-14.</p>	

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***Schedule of Findings and Questioned Costs***  
***Alabama Medicaid Agency***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

<b>Ref. No.</b>	<b>CFDA No.</b>	<b>Program</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
04-2-3	93.775 93.776 93.777 93.778	U. S. Department of Health and Human Services; Medicaid Cluster	<p><b><u>Finding</u></b>  31 USC 7502(f)(2)(B) (Single Audit Act Amendments of 1996 (Pub. L. 104-156)) provides that each pass-through entity shall monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means. Alabama Medicaid Agency has developed but has not implemented monitoring procedures for funds passed through to the City of Tallassee and the Chambers County Boards of Education.</p> <p><b><u>Recommendation</u></b>  The Alabama Medicaid Agency should monitor subrecipient's use of Federal awards through site visits, limited scope audits, or other means.</p>	
06-2-1	93.775 93.776 93.777 93.778	U. S. Department of Health and Human Services; Medicaid Cluster	<p><b><u>Finding</u></b>  According to 42 CFR section 431.812(a), the Alabama Medicaid Agency must review all active cases selected from the State agency's lists of cases authorized eligible for the review month, to determine if the cases were eligible for services during all or part of the month under review and, if appropriate, whether the proper amount of recipient liability was computed. During our testing of Medicaid's Eligibility Quality Control process, we noted numerous errors in the spreadsheet used to calculate the lower limit and error rate. Also, we noted instances where the incorrect PHP (Partnership Hospital Plan) capitation rate was used to calculate liabilities. This is considered a material weakness in internal controls and material noncompliance.</p>	

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***Schedule of Findings and Questioned Costs***  
***Alabama Medicaid Agency***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			<b><u>Recommendation</u></b> The Alabama Medicaid Agency should strengthen their internal controls to ensure that the proper PHP rates are used and that the lower limit and error rate are calculated correctly.	
06-2-2	93.775 93.776 93.777 93.778	U. S. Department of Health and Human Services; Medicaid Cluster	<b><u>Finding</u></b> The Alabama Medicaid Agency has several memorandums of understanding and provider contracts with state agencies that serve clients that are determined eligible for Medicaid services. The agreements and contracts provide that the state agency pay to the Alabama Medicaid Agency the state matching share of Medicaid benefits paid on behalf of Medicaid eligible clients served by the respective state agency. The Center for Medicare and Medicaid Services requires that these intergovernmental transfers (IGTs) meet certain requirements of Section 1903(w) (6) (A) of the Social Security Act, Section 1902(a) (30) of the Social Security Act, and 42 CFR 433.51.  Section 1902(a) (30) of the Social Security Act requires that funds cannot come from Medicaid payments made to the provider. If payments are used as an IGT for funding purposes then the IGT should be treated as an offset to expenditures or a refund of previous payments.	

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***Schedule of Findings and Questioned Costs***  
***Alabama Medicaid Agency***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

<b>Ref. No.</b>	<b>CFDA No.</b>	<b>Program</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
			<p><b><u>Finding Continued</u></b></p> <p>We determined that the Departments of Mental Health and Mental Retardation, Human Resources, Rehabilitation Services and Youth Services made intergovernmental transfers by processing transactions that were refunds against receipts. The refunds were coded to the same revenue codes used to record the receipt of payments for Medicaid benefits.</p> <p>Although IGTs were processed as refunds against receipts, each state agency had sufficient non-federal revenues that could be used as the state share for Medicaid benefits.</p> <p><b><u>Recommendation</u></b></p> <p>The Alabama Medicaid Agency should ensure that the state share of Medicaid benefits provided by other state departments meet all requirements for intergovernmental transfers as specified by Section 1903(w) (6) (A) of the Social Security Act, Section 1902(a) (30) of the Social Security Act, and 42 CFR 433.51.</p>	

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***Schedule of Findings and Questioned Costs***  
***Alabama Medicaid Agency***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
	93.775 93.776 93.777 93.778	U. S. Department of Health and Human Services; Medicaid Cluster	<p><b><u>Comment</u></b></p> <p>During the fiscal year 2003-2004, the Alabama Medicaid Agency was in an ongoing dispute with the U. S. Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS), regarding some points of a 14-point list of areas where the federal agency had questions about the Alabama Medicaid Agency's operations including funding practices used by Alabama and other states to draw federal Medicaid matching funds. CMS and/or their auditor's OIG (Office of Inspector General) questioned excessive payments to public health facilities, circumvention of statutory ceilings for state Medicaid payments, called the "upper payment limit" (UPL), maximization of disproportionate-share hospital (DSH) payments, and pharmacy taxes. Disallowance actions were possible; however, no funds have been officially disallowed and recouped. In February 2005, a compromise was reached between the two parties. Progress has been made and some issues have been resolved; however, the Alabama Medicaid Agency is continuing to work with CMS on implementing changes to resolve the remaining issues.</p>	

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***Schedule of Findings and Questioned Costs***  
***Department of Economic and Community Affairs***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
06-3-1	14.228	U. S. Department of Housing and Urban Development; Community Development Block Grants/State's Program (CDBG)	<b><u>Finding</u></b> According to OMB Circular A-133 Compliance Supplement, the pass-through entity is responsible for ensuring that subrecipients expending \$500,000 more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period; issuing management decisions on audit findings within six months after receipt of the subrecipient's audit report; ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings; and ensuring that subrecipient noncompliance is properly reflected in the pass-through entity's records and reports.	
	17.258 17.259 17.260	U. S. Department of Labor; Workforce Investment Act Cluster	During our review of 35 subrecipient audit files maintained in the Audit Division the following errors were noted:	
	93.568	U. S. Department of Health and Human Services; Low Income Home Energy Assistance Program	The Alabama Department of Economic and Community Affairs' Audit Division enters all contracts for federal grant programs by fiscal year on a report (Audit Division's Due and Delinquent Report) to determine whether subrecipients received grants totaling \$500,000 or more and are required to have A-133 audits.	

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***Schedule of Findings and Questioned Costs***  
***Department of Economic and Community Affairs***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			<p><b><u>Finding Continued</u></b></p> <p>All contracts were not entered for two subrecipients of CDBG program funds. Because of the omissions, the report did not reflect that these subrecipients were required to have A-133 audits.</p> <p>We found four instances in which the Department did not issue management decisions on audit reports with findings within six months after the receipt of the subrecipient's audit report. In one of the four instances, the audit report was misfiled in the audit file of another subrecipient. The report had not been logged in or stamped as received or reviewed.</p> <p>This is a reportable condition in internal control and noncompliance with federal laws and regulations.</p> <p><b><u>Recommendation</u></b></p> <p>The Alabama Department of Economic and Community Affairs should implement policies and procedures necessary to ensure subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133. The Department should issue management decisions on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings.</p>	



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***Schedule of Findings and Questioned Costs***  
***Department of Education***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

<b>Ref. No.</b>	<b>CFDA No.</b>	<b>Program</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
06-4-1	84.010	U. S. Department of Education; Title I Grants to LEAs	<p><b><u>Finding</u></b></p> <p>An adequate system of internal controls should ensure that computer generated reports used in the Cash Management Improvement Act (CMIA) drawdown process and interest liability calculation are accurate. During our testing of cash management, we noted that CMIA reports used in calculating the interest liability contained some incorrect deposit and voucher release dates. Also, CMIA reports used to calculate the amount of federal drawdowns included some vouchers more than once, and did not include some other vouchers that should have been included. These errors occurred whenever there was a Budgetary Expenditure Control System (BECS) failure during the nightly cycle and subsequent restoration of the system. BECS is the Department of Education's primary automated accounting system.</p> <p>The interest liability calculation is based upon interest rates, pre-issuance days, clearance days and the amount of drawdowns. Although the total amount of the errors caused by BECS failures is not readily determinable, the date changes, duplicate vouchers, and omitted vouchers on the CMIA reports would have an effect on the drawdown of federal funds and the interest liability calculated.</p>	
	96.001	Social Security Administration; Disability Determination		

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***Schedule of Findings and Questioned Costs***  
***Department of Education***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

<b>Ref. No.</b>	<b>CFDA No.</b>	<b>Program</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
			<b><u>Recommendation</u></b> The Department of Education should evaluate the BECS system and implement corrective action to ensure that the system is operating at optimal level and that computer generated reports are accurate.	
06-4-2	84.011	U. S. Department of Education; Migrant Education	<b><u>Finding</u></b> An adequate system of internal controls over reporting ensures that data used to compile reports is accurate and complete. During testing of the key line items of the annual Consolidated State Performance Report, Part II it was noted that the underlying supporting documentation contained mathematical errors. As a result of mathematical errors, the key line item totals appear to be inaccurate and incomplete. This is a reportable condition in internal controls.  <b><u>Recommendation</u></b> The Department of Education should implement procedures and controls to ensure that accurate and complete information is included in the Consolidated State Performance Report, Part II.	

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***Schedule of Findings and Questioned Costs***  
***Department of Education***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

<b>Ref. No.</b>	<b>CFDA No.</b>	<b>Program</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
06-4-3	96.001	Social Security Administration; Disability Determination	<p><b><u>Finding</u></b>  An adequate system of internal controls over reporting ensures that data used to compile reports is accurate and complete. The Department of Education is required to submit the SSA-4514 report which is a time report of personnel services. The 3<sup>rd</sup> and 4<sup>th</sup> quarter SSA-4514 reports were supported by spreadsheets prepared to compile the leave and holiday hours which contained mathematical errors. Also, the leave and holiday hours were not verifiable because the supporting documentation was not maintained. The overtime hours entered on the 3<sup>rd</sup> quarter report were untraceable to the accounting records. The overtime hours reported were less than the actual overtime hours in the accounting records. Due to the discrepancies noted, some of the data reported on the SSA-4514 reports reviewed is not correct. Therefore, the SSA-4514 reports reviewed are inaccurate and incomplete. This is a reportable condition in internal controls.</p> <p><b><u>Recommendation</u></b>  The Department of Education should implement procedures and controls to ensure that accurate and complete information is included on the SSA-4514 reports.</p>	

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***Schedule of Findings and Questioned Costs***  
***Department of Education***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

<b>Ref. No.</b>	<b>CFDA No.</b>	<b>Program</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
06-4-4	10.558	U. S. Department of Agriculture; Child and Adult Care Food	<p><b><u>Finding</u></b></p> <p>The Department of Education administers the Child and Adult Care Food Program (CACFP). CACFP provides nutritious meals and snacks served to eligible children and adults who are enrolled for care at participating child care centers, adult day care centers, outside-school-hours care centers, after-school at risk programs, family and group day care homes, and shelters. OMB Circular A-133 requires that non-federal entities that expend \$500,000 or more in a year in Federal awards shall have a single audit conducted for that year. The pass-through entity is responsible for ensuring that the required audits are completed within nine months of the end of the subrecipient's audit period, unless a longer period is agreed to in advance by the Federal agency that provided the funding or a different period is specified in a program-specific audit guide. The pass-through entity shall issue a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensure that subrecipient takes timely and appropriate corrective action on all audit findings. We requested to review audits for ten out of 26 CACFP subrecipients as evidence that subrecipients had obtained audits as required. The Department did not have an audit on file for six of the ten subrecipients selected for testing.</p>	

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***Schedule of Findings and Questioned Costs***  
***Department of Education***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

<b>Ref. No.</b>	<b>CFDA No.</b>	<b>Program</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
			<p><b><u>Finding Continued</u></b> The Department did not perform follow up procedures or withhold funding until subrecipients met audit requirements. Also, the Department did not ensure that a management decision was issued on audit findings within six months after receipt of the subrecipient's audit report nor did the Department ensure that subrecipients were taking appropriate and timely corrective action on all audit findings.</p> <p><b><u>Recommendation</u></b> The Department of Education should ensure that subrecipients expending \$500,000 or more in a year in Federal awards have a single audit conducted for that year. Audits should be completed within nine months of the end of the subrecipient's audit period, unless a longer period is granted. The Department should ensure that a management decision is issued on audit findings within six months after receipt of the subrecipient's audit report and that subrecipients take appropriate and timely corrective action on all audit findings.</p>	

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***Schedule of Findings and Questioned Costs***  
***Emergency Management Agency***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
06-5-1	97.036 97.039 97.040	U. S. Department of Homeland Security; Public Assistance Grant Program, Hazard Mitigation Grant Program, and Chemical Stockpile Emergency Preparedness Program	<b><u>Finding</u></b> 31 CFR Subpart B, Section 205.33 states that, “a State must minimize the time between the drawdown of Federal funds from the Federal Government and their disbursement for Federal program purposes.” Twenty cash drawdowns were selected and tested to determine if procedures established to minimize the time elapsing between drawdowns and disbursement of funds appeared to be operating effectively; that amounts drawn were consistent with current cash needs; that documentation was adequate to support the drawdown; and that negative draws were only performed for a valid reason, i.e. refund, de-obligation, etc. In three instances, it appeared that procedures established to minimize the time elapsing between drawdowns and disbursement of funds were not operating effectively. In eight instances, it appeared that negative draws were performed for reasons other than a refund or de-obligation. These reasons included the improper cancellation of warrants, and correcting errors where federal funds were initially drawn from the wrong source. These eight instances are also evidence that the procedures established to minimize the time elapsing between drawdowns and disbursement of funds appear not to be operating effectively. These errors are evidence of a weakness in internal control over cash management procedures and noncompliance with 31 CFR, Part 205, Subpart B.	

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***Schedule of Findings and Questioned Costs***  
***Emergency Management Agency***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			<u><b>Recommendation</b></u> The Alabama Emergency Management Agency should design and implement a system of internal controls which would ensure compliance with 31 CFR, Part 205, Subpart B, Section 205.33.	
06-5-2	97.036 97.039 97.040	U. S. Department of Homeland Security; Public Assistance Grant Program, Hazard Mitigation Grant Program, and Chemical Stockpile Emergency Preparedness Program	<u><b>Finding</b></u> OMB Circular A-133 Compliance Supplement, Part 3, Section M – Subrecipient Monitoring documents the following responsibilities of a pass-through entity:  “Subrecipient Audits – (1) ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient’s fiscal year have met the audit requirements and that the required audits are completed within nine months of the end of the subrecipient’s audit period, (2) issuing a management decision on audit findings within six months after receipt of the subrecipient’s audit report, and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.”	

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***Schedule of Findings and Questioned Costs***  
***Emergency Management Agency***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

<b>Ref. No.</b>	<b>CFDA No.</b>	<b>Program</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
			<p><b><u>Finding Continued</u></b>  Out of ten subrecipients selected, five did not submit audit reports as required. One of the audits submitted did not meet the audit requirements of OMB Circular A-133. In addition, the Alabama Emergency Management Agency did not maintain documentation to support follow-up action with the subrecipients regarding these audit reports. These errors are indicative of a weakness in internal controls over subrecipient monitoring and noncompliance with the requirements of OMB Circular A-133.</p> <p><b><u>Recommendation</u></b>  The Alabama Emergency Management Agency should implement an internal control system that would ensure subrecipients expending \$500,000 or more in federal awards submit audit reports as required by OMB Circular A-133. In addition, the Alabama Emergency Management Agency should maintain written documentation supporting efforts to follow-up with subrecipients to secure audit reports.</p>	



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***Schedule of Findings and Questioned Costs***  
***Department of Human Resources***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

<b>Ref. No.</b>	<b>CFDA No.</b>	<b>Program</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
05-6-3	93.558	U. S. Department of Health and Human Services; Temporary Assistance for Needy Families (TANF)	<p><b><u>Finding</u></b></p> <p>45 CFR 265.7 requires each State's quarterly TANF Data Report (ACF-199) be complete and accurate. This requires that the reported data accurately reflect the information available to the State in the case records, financial records, and automated data systems. The data should be free from computational errors and be internally consistent. The State should report data on all required elements for all families. These reports are used to determine if the State has met or exceeded their annual work participation rate standards. Failure to do so could mean a penalty of up to 21 percent of the grant funds. We compared the data included in the ACF-199 Report to the client files for the key lines items as stated in the March 2006 Compliance Supplement for this report.</p> <p>In order to test the completeness and accuracy of the ACF-199 Report, we traced the information from the ACF-199 Report to the case files that are maintained at the county level. During our testing of the ACF-199 Report, we noted the following errors.</p>	

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***Schedule of Findings and Questioned Costs***  
***Department of Human Resources***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

<b>Ref. No.</b>	<b>CFDA No.</b>	<b>Program</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
			<p><b><u>Finding Continued</u></b></p> <p>There were two instances noted at both the Butler County Department of Human Resources and the Chambers County Department of Human Resources where the ACF-199 Report indicated that the date of birth (a key line item) for a member of the client's family was something other than the date that was indicated on the birth certificate or other official record. Also, one instance was noted at the Montgomery County Department of Human Resources.</p> <p>We noted one instance at both the Butler County Department of Human Resources and the Jefferson County Department of Human Resources where a client did not have their required elements included on the ACF-199 Report for the month of February 2006.</p> <p>We noted 23 instances where the ACF-199 Report indicated a different number of months counting towards the federal benefit time limit (a key line item) than what the Department of Human Resources case file or automated data system actually indicated. In most instances, it appears that the ACF-199 Report reflected an additional month of benefits had been received by the client.</p> <p>This is a reportable condition and noncompliance with federal laws and regulations.</p> <p><b><u>Recommendation</u></b></p> <p>The Department of Human Resources should ensure that only complete and accurate information is reported on the ACF-199 Report.</p>	

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***Schedule of Findings and Questioned Costs***  
***Department of Human Resources***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

<b>Ref. No.</b>	<b>CFDA No.</b>	<b>Program</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
05-6-4	93.558	U. S. Department of Health and Human Services; Temporary Assistance for Needy Families (TANF)	<p><b><u>Finding</u></b></p> <p>45 CFR 265.7 requires each State's quarterly SSP-MOE Data Report (ACF-209) be complete and accurate. This requires that the reported data accurately reflect the information available to the State in the case records, financial records, and automated data systems. The data should be free from computational errors and be internally consistent. The State should report data on all required elements for all families. These reports are used to determine if the State has met or exceeded their annual work participation rate standards. Failure to do so could mean a penalty of up to 21 percent of the grant funds. We compared the data included in the ACF-209 Report to the client files for the key lines items as stated in the March 2006 Compliance Supplement for this report.</p> <p>In order to test the completeness and accuracy of the ACF-209 Report, we traced the information from the ACF-209 Report to the case files that are maintained at the county level. During our testing of the ACF-209 Report, we noted the following errors.</p> <p>There was one instance noted at the Jefferson County Department of Human Resources where the ACF-209 Report reflected the wrong date of birth for a family member in a particular case. Also, there were three instances noted at the Mobile County Department of Human Resources where the ACF-209 Report reflected the wrong date of birth for a family member in a particular case.</p>	

***Schedule of Findings and Questioned Costs***  
***Department of Human Resources***  
***For the Year Ended September 30, 2006***

**Section III – Federal Awards Findings and Questioned Costs**

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			<p><b><u>Finding Continued</u></b>  In each of the instances noted, there was documentation in the case record that indicated the correct date of birth for the applicable family members.</p> <p>This is a reportable condition and noncompliance with federal laws and regulations.</p> <p><b><u>Recommendation</u></b>  The Department of Human Resources should ensure that only complete and accurate information is reported on the ACF-209 Report.</p>	
05-6-6	10.551 10.561	U. S. Department of Agriculture; Food Stamp Cluster	<p><b><u>Finding</u></b>  To ensure that the State operates its Food Stamp Program in compliance with the law, program regulations, and the State agency's plan of operation, the State is required to have a system for monitoring and improving the administration of the program (7 CFR 275.1), particularly the accuracy of eligibility and benefit determinations. Accuracy involves not only the correct determinations of eligibility and benefit amounts, but also maintaining accurate information on those who apply for benefits.</p> <p>We tested 60 food stamp case files for compliance with federal program requirements relating to the Food Stamp program. During our testing, we noted one case where it appears the Department did not appear to be complying with the requirement to accurately and completely process and store all case file information for eligibility determination and benefit calculation.</p>	\$2,272.00

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***Schedule of Findings and Questioned Costs***  
***Department of Human Resources***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			<p><b><u>Finding Continued</u></b></p> <p>The error appeared to be an oversight and it resulted in an overpayment. The following discrepancy was noted during our testing.</p> <p>During our testing of the food stamp files at the Montgomery County Department of Human Resources, we noted one instance where the Department did not include all the family income in the budget. There were two family members that were included in determining the family size; however, their income was not included in the budget.</p> <p>This error resulted in a known questioned cost of \$196.00 for the test month and a likely (projected) questioned cost of \$266,260.94 for the test month.</p> <p>In addition, there was \$2,076.00 in questioned cost for the preceding and subsequent months related to the tested case files.</p> <p>This is a reportable condition and noncompliance with federal laws and regulations. Total questioned cost is \$2,272.00.</p> <p><b><u>Recommendation</u></b></p> <p>The Department of Human Resources should ensure that the information entered into the system is accurate so that benefit calculations are correct.</p>	

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***Schedule of Findings and Questioned Costs***  
***Department of Human Resources***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
06-6-1	10.551 10.561	U. S. Department of Agriculture; Food Stamp Cluster	<b><u>Finding</u></b> OMB Circular A-87 – Cost Principles for State, Local, and Tribal Governments, Appendix B, Section 8.d (3), states that payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component. We tested twenty-five (25) employees who retired or terminated employment from the Department of Human Resources during the audit period. We noted two instances where an employee's termination payment for annual leave was not allocated as a general administrative expense to all activities of the Department. In both instances, the employee's termination payment was allocated to the federal programs that their salary was allocated to. Subsequent to these errors being brought to the Department's attention, they were corrected. This is a reportable condition and noncompliance with federal laws and regulations.	
	93.558	U. S. Department of Health and Human Services; Temporary Assistance for Needy Families		
	93.575 93.596	U. S. Department of Health and Human Services; Child Care Development Fund Cluster		
	93.658	U. S. Department of Health and Human Services; Foster Care Title IV-E		
	93.667	U. S. Department of Health and Human Services; Social Services Block Grant	<b><u>Recommendation</u></b> The Department should allocate payments for unused leave when an employee retires or terminates employment as a general administrative expense to all activities.	

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***Schedule of Findings and Questioned Costs***  
***Department of Public Health***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

<b>Ref. No.</b>	<b>CFDA No.</b>	<b>Program</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
97-9-8	10.557	U. S. Department of Agriculture; Special Supplemental Nutrition Program for Women, Infants, and Children	<p>The Department of Public Health utilizes the central data processing facilities maintained by the State of Alabama Department of Finance to process data and interface with the central accounting system of the State of Alabama. An examination and review was performed of both manual and automated controls intended to ensure that data processed by the system is accurate, complete, and authorized. A finding and recommendation relating to electronic data processing is summarized below. For security reasons, a more detailed report was made available to the Alabama Department of Public Health in a separate document.</p> <p><b><u>Finding</u></b></p> <p>The Alabama Department of Public Health has developed a formal contingency plan that includes policies and procedures to be followed in the event of a disaster that adversely affects the operations of its data processing. Applications essential for accounting for federal programs reside on the Finance Department Information Systems Division (ISD) mainframe computer. The Department does not have a contingency plan for mainframe applications in case the ISD mainframe becomes unavailable.</p>	
	93.994	U. S. Department of Health and Human Services; Maternal and Child Health Services Block Grant to the States		

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***Schedule of Findings and Questioned Costs***  
***Department of Public Health***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

<b>Ref. No.</b>	<b>CFDA No.</b>	<b>Program</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
			<p><b><u>Finding Continued</u></b>            ISD has established an alternate processing facility which is located at the Alabama Supercomputer Authority in Huntsville, Alabama. ISD plans to make this facility available to state agencies and departments to use as a back-up recovery facility. The agencies will have the responsibility of storing back-up files in a compatible format. Agencies will be phased in as resources become available. It is expected that the Alabama Supercomputer Authority processing site will eventually resolve this finding. However, at this time the finding is not resolved. This remains a reportable condition in internal controls.</p> <p><b><u>Recommendation</u></b>            The Alabama Department of Public Health should negotiate and formalize an agreement that provides alternate processing facilities to be used in the event its primary processing facilities are destroyed or inaccessible following a disaster. Such an agreement and the policies and procedures to follow to implement alternate processing facilities should be incorporated into its existing contingency plan and this plan should be tested.</p>	



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***Schedule of Findings and Questioned Costs***  
***Department of Conservation and Natural Resources***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

<b>Ref. No.</b>	<b>CFDA No.</b>	<b>Program</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
06-13-1	11.419	U. S. Department of Commerce; Coastal Zone Management Administration Awards	<p><b><u>Finding</u></b>  OMB Circular A-102 Common Rule, Section .35 prohibits non-federal entities from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include procurement contracts for goods or services equal to or in excess of \$25,000 and all nonprocurement transactions. The Department of Conservation and Natural Resources did not have internal controls in place to prevent the agency from awarding a contract to a suspended or debarred party. This is a reportable condition in internal controls.</p> <p><b><u>Recommendation</u></b>  The Department of Conservation and Natural Resources should implement adequate internal controls to ensure that contracts are not awarded to suspended or debarred parties.</p>	
	15.605 15.611	U. S. Department of the Interior; Fish and Wildlife Cluster		

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***Schedule of Findings and Questioned Costs***  
***Department of Postsecondary Education***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
06-17-1	84.002	U. S. Department of Education; Adult Education – State Grant Program	<p><b><u>Finding</u></b></p> <p>OMB Circular A-87, Attachment B, Selected Items of Cost, requires that personnel activity reports (time sheets) reflect an after-the-fact distribution of the actual activity of each employee and account for the total activity for which each employee is compensated. Also, OMB Circular A-87 provides that the cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if: They are provided under established written leave policies; the costs are equitably allocated to all related activities, including Federal awards; and, the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the governmental unit.</p> <p>We reviewed an initial selection of time sheets for ten employees for one month and noted that two of these time sheets did not account for the total activity for which the employee was compensated. We reviewed the time sheets for these same ten employees for two additional months and noted similar errors. Three of the ten timesheets for one of the additional months did not account for the total activity for which the employees were compensated.</p>	

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***Schedule of Findings and Questioned Costs***  
***Department of Postsecondary Education***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			<p><b><u>Finding Continued</u></b></p> <p>One of the timesheets for the other additional month selected accounted for more than the total activity for which the employee was compensated. These errors do not provide an accurate after-the-fact distribution of the actual activity of each employee.</p> <p>In our initial selection of timesheets, we noted that the timesheets documented that six of the ten employees charged part of their time to “special leave.” For these six employees, the number of hours of this type leave charged for the month ranged from four to six hours per employee. All or a portion of this leave was charged to the federal program depending on the employee’s percentage of time worked on the program. The employees charged time to special leave when the Department’s Chancellor allowed them to leave work early on Friday afternoons. We noted that special leave was also being charged during the review of timesheets for two additional months. The Department of Postsecondary Education’s personnel procedures handbook provides for special leave to be used under special circumstances, including leave without pay, blood donation leave, professional/educational leave, and administrative leave granted for temporary appointment of Department employees within the Alabama College System.</p>	

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***Schedule of Findings and Questioned Costs***  
***Department of Postsecondary Education***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			<p><b><u>Finding Continued</u></b>  Allowing an employee to leave work early is not an acceptable or appropriate reason to grant special leave and is not considered an allowable fringe benefit cost under Circular A-87. The amount of questioned costs was not readily determinable.</p> <p>These instances constitute a reportable condition in internal control and noncompliance with federal laws and regulations.</p> <p><b><u>Recommendation</u></b>  The Department of Postsecondary Education should ensure that time sheets account for the total activity for which each employee is compensated and the Department should only charge allowable fringe benefits to federal programs.</p>	
06-17-2	84.002	U. S. Department of Education; Adult Education – State Grant Program	<p><b><u>Finding</u></b>  OMB Circular A-87, Attachment A, General Principles for Determining Allowable Costs, establishes principles and standards for determining allowable costs for federal awards. To be allowable under federal awards, costs must meet several general criteria, including that the costs be adequately documented. During our testing of a selection of vouchers for the Adult Education – State Grant Program, we noted that several of the payments were made by the Department of Postsecondary Education to two-year colleges that provide adult education services.</p>	

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***Schedule of Findings and Questioned Costs***  
***Department of Postsecondary Education***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			<p><b><u>Finding Continued</u></b></p> <p>The documentation that was attached to most of these payments was a monthly reimbursement request form (Monthly Request for Funds “MRF” form) that was completed by the college. This form includes for the college their total adult education funds received from the Department during the grant year through the month being reported, total adult education disbursements through the month being reported, estimated disbursements for the month subsequent to the month being reported, and an amount of cash requested from the Department that is calculated using the other amounts on the form. This form presents amounts in total for the program and does not present the amounts by budget category (e.g. salaries, supplies, etc.) Other payments made by the Department to the colleges were supported only by a letter from the Chancellor with a stated adult education purpose rather than a monthly reimbursement request form from the college. For the payments made by the Department of Postsecondary Education to the colleges, the Department did not obtain from the colleges adequate documentation that supports the adult education disbursements made by the colleges using the funds received from the Department. This is a reportable condition in internal control and noncompliance with federal laws and regulations.</p>	

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***Schedule of Findings and Questioned Costs***  
***Department of Postsecondary Education***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			<p><b><u>Finding Continued</u></b></p> <p>As we were unable to determine from the records maintained at the Department the allowability of payments made by the Department to the colleges, we decided to visit six of the colleges and review their supporting documentation for their adult education disbursements. The colleges visited included Central Alabama Community College, J. F. Ingram State Technical College, Jefferson State Community College, Northeast Alabama Community College, Northwest-Shoals Community College, and Shelton State Community College. We noted discrepancies in the documentation for disbursements at these colleges.</p> <p>The discrepancies consisted primarily of differences between the amounts reported on the MRF forms submitted to the Department and amounts on supporting documentation.</p>	

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***Schedule of Findings and Questioned Costs***  
***Department of Postsecondary Education***  
***For the Year Ended September 30, 2006***

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**Section III – Federal Awards Findings and Questioned Costs**

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			<p><b><u>Recommendation</u></b></p> <p>The Department of Postsecondary Education should ensure that all of its expenditures are supported by adequate documentation. The Department should obtain from the two-year colleges documentation that shows how the college spent all adult education funds received from the Department. Examples of such documentation include payroll registers for salaries and benefits costs and invoices for supplies costs. The Department should retain this documentation for audit purposes. The monthly reimbursement request forms prepared by the colleges should present amounts by budget category, such as salaries and supplies. The disbursement amounts reported on the monthly reimbursement request forms should be supported by and agree with the documentation submitted by the college to the Department along with the reimbursement request.</p>	

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***Summary Schedule of Prior Audit Findings***  
***Department of Finance***  
***For the Year Ended September 30, 2006***

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As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section \_\_.315(b), the Department of Finance has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of September 30, 2006.

**Finding**

**Ref. No.      Status of Prior Audit Finding**

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- 02-1-1      With the Information Services Fund, the Finance Department has negotiated directly with and paid to the Department of Health and Human Services (DHHS) the overcharges for fiscal years prior to and including 2002. With the negotiations completed for those fiscal years, working capital balances accumulated at that point are not contested by DHHS and should not be included in the calculation of working capital beginning with the 2003 fiscal year. The negotiations are being finalized for fiscal year 2003. The Department is working directly with DHHS to resolve overcharges by fiscal year for 2003 and forward. The Department continues to analyze and adjust rates, with the intent of reducing working capital reserves and as a result, less being paid to DHHS for each subsequent fiscal year.
- With the Motor Pool Fund, the Finance Department experienced an increase in operating expenses with the escalation of the cost of gasoline and other petroleum products. Additional fleet vehicles were purchased in fiscal year 2006. Some of these vehicles are alternative fuel vehicles, and the Motor Pool is making capital investments to incorporate these enhancements into their operation.
- With the Central Mail and Supply Fund, the Finance Department reduced rates in the Supply operation; the Mail facility upgraded its operation by modernizing equipment and increasing staffing levels.
- 03-1-1      Corrective action has been taken.
- 05-1-1      Regarding the errors detected in the allocation of central service costs in the statewide central service cost allocation plan for the State of Alabama, the Statewide Cost Allocation Plan (SWCAP) is prepared by consultants specializing in cost allocation plans and relies on their expertise. Errors made on the 2003 Statewide Cost Allocation Plan have been reviewed by DHHS and will be corrected as authorized by DHHS. As noted by the Examiner, the errors are not material. DHHS views our response as satisfactory concerning the recommendation cited in the audit report for which they have resolution responsibility. The Department continues to work with the consultants to reduce future error rates.



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***Summary Schedule of Prior Audit Findings***  
***Alabama Medicaid Agency***  
***For the Year Ended September 30, 2006***

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As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section \_\_.315(b), the Alabama Medicaid Agency has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of September 30, 2006.

**Finding**

<b>Ref. No.</b>	<b>Status of Prior Audit Finding</b>
02-2-1	Corrective action planned: The Agency plans to make a change to the State Plan, Section AL-95-14. The change will incorporate the current methodology in accordance with CMS. It should be noted that CMS has never found us out of compliance with our current State Plan.
04-2-2	Corrective action planned: The Internal Auditor position has been filled. The audit is nearing completion.
04-2-3	Corrective action planned: The Internal Auditor position has been filled. This position will be responsible for completing this review. Please note that we still have not received approval from CMS of our submitted monitoring plan.
05-2-1	Corrective action planned: None needed. The rates differed from the contracts anywhere from \$.01 to \$.26, both positive and negative. We believe this oversight has no material impact.

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***Summary Schedule of Prior Audit Findings***  
***Department of Economic and Community Affairs***  
***For the Year Ended September 30, 2006***

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As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section \_\_.315(b), the Department of Economic and Community Affairs has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of September 30, 2006.

**Finding**

<b>Ref. No.</b>	<b>Status of Prior Audit Finding</b>
01-1-1	ADECA will purchase a redundant AS/400 and peripherals. Space will be leased from the Finance Information Services Division in their computer room facility in the basement of the Alabama State House. Therefore, redundant AS/400s will be maintained in the Alabama State House and the Center for Commerce. The Center for Commerce facility will continue to be used as our primary processing facility. The redundant facility in the State House will be utilized as an alternative processing facility for disaster contingency. ADECA anticipates completing this plan by September 30, 2007.
04-3-1	ADECA sent a letter dated June 29, 2006 to the Alabama Department of Public Safety (ADPS) requesting repayment of \$28,332.58 pertaining to questioned costs for the Byrne Formula Grant. Based on subsequent conversations and review of the records in question, it was determined that there were misinterpretations of the reviewed records resulting in the questioned costs. A final determination was made that the ADPS overcharged ADECA overtime in one instance and that an employee did not work a full 80 hours in one instance and no leave was documented, resulting in questioned costs of \$279.56. A letter has been submitted to ADPS requesting payment and the payment is in process.
04-3-2	ADECA has submitted the revised State Plan to the General Services Administration (GSA) for review and approval. We have received the Plan back from GSA in order to make suggested changes. As soon as the changes are made, it will be submitted again to GSA for approval. We anticipate having the State Plan revised and approved by GSA by December 31, 2006.
04-3-4	Same response as 04-3-2.
05-3-1	The Corrective Action plan has been implemented. Monitoring files contain evidence of match in the form of uniform checklists which identify the source of match funds.

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***Summary Schedule of Prior Audit Findings***  
***Department of Economic and Community Affairs***  
***For the Year Ended September 30, 2006***

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- 05-3-2        The Subgrantee Performance Report is an annual report that reflects programmatic data collected by subgrantees for the period October 1 through September 30. Victims of Crime Act subgrantees were given a deadline of November 20, 2006 to submit their individual program reports to ADECA; our federal Subgrantee Performance Report is due to the Department of Justice no later than January 15, 2007. Staff of the LETS Division will work with ADECA's Information Services Section staff to modify the program that was loaned by the State of New Hampshire to compile the data. The report will be available for review after January 15, 2007.
- 05-3-3        Same response as 05-3-2.
- 05-3-4        Monitoring visits were conducted for all LIHEAP subgrantees which included a report, a letter to the subgrantee detailing any findings and a response resolving the findings when required. A monitoring checklist was completed on each agency to ensure that agencies responded within the 30 days. The monitors followed up on each visit to ensure a timely response and documented contacts with the agencies for those that were late. All responses are on file along with the completed checklist.
- 05-3-5        As of June 30, 2006, the OWD State Monitoring Section implemented and had the following procedures and instruments in place. 1) The annual monitoring log was expanded to record the extra corrective action steps taken to resolve a finding should the initial response require more information or action by the subgrantee. 2) An Outstanding Report File was created to track all active monitoring reports until final resolution is accomplished. The Monitoring Log shows dates due for each report. 3) A tickler file was established using Microsoft Outlook calendar to denote response deadlines to all active reports. This "pop-up" reminder ensures that immediate follow-up is conducted if responses are not received by the due dates.

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***Summary Schedule of Prior Audit Findings***  
***Department of Homeland Security***  
***For the Year Ended September 30, 2006***

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As required by the Office of Management and Budget (OMB) Circular Number A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***, Section \_\_.315(b), the Department of Homeland Security has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of September 30, 2006.

**Finding**

<b>Ref. No.</b>	<b>Status of Prior Audit Finding</b>
05-16-1	The revised Cooperative Grant Agreement with subrecipients includes “Debarment, Suspension, and other Responsibility Matters” in the regulations (Attachment II), also referencing agreement with such under Terms and Conditions.
05-16-2	The Grants staff of AL DHS has increased monitoring of subrecipients expending \$500,000 or more in Federal awards per guidelines set forth in OMB Circular A-133 by desk and on-site. Attachment III of the revised Cooperative Grant Agreement in an “Acceptance of Audit Requirements” agreement.
05-16-3	The revised Cooperative Grant Agreement includes CFDA title and number, and Terms and Conditions that include references to bidding requirements, property control, as well as other applicable Federal regulations.

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***Summary Schedule of Prior Audit Findings***  
***Department of Human Resources***  
***For the Year Ended September 30, 2006***

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As required by the Office of Management and Budget (OMB) Circular Number A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***, Section \_\_.315(b), the Department of Human Resources has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of September 30, 2006.

**Finding**

<b>Ref. No.</b>	<b>Status of Prior Audit Finding</b>
00-6-1	Contact person(s): Patricia Huffman. Corrective action was taken.
00-6-7	Contact person(s): Rachel A. Watters. Refresher Training for IV-E Specialists was completed on August 3, 2006. Questionable cost associated with the five (5) error cases have been adjusted on IV-E-1 Report.
02-6-3	Contact person(s): Jim Connell. Corrective action was taken.
04-6-1	Contact person(s): Jim Connell. No action taken.
04-6-9	Contact person(s): Melody Armstrong. Status as previously reported in corrective action plan.
05-6-1	Contact person(s): Jim Connell. Corrective action was taken.
05-6-2	Contact person(s): Jim Williford. Corrective action was taken.
05-6-3	Contact person(s): Melody Armstrong and Debbie Wood. Item 1 complete; Item 2 partially complete with anticipated full completion April 2007.
05-6-4	Contact person(s): Melody Armstrong and Debbie Wood. Item 1 complete; Item 2 partially complete with anticipated full completion April 2007.
05-6-5	Contact person(s): Debbie Thomas. Corrective action was taken.
05-6-6	Contact person(s): Patricia Huffman. Corrective action was taken.
05-6-7	Contact person(s): Jim Connell. Corrective action was taken.

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***Summary Schedule of Prior Audit Findings***  
***Department of Public Health***  
***For the Year Ended September 30, 2006***

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As required by the Office of Management and Budget (OMB) Circular Number A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***, Section \_\_.315(b), the Department of Public Health has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of September 30, 2006.

**Finding**

<b>Ref. No.</b>	<b>Status of Prior Audit Finding</b>
97-9-8	As stated before, the Department of Public Health has neither the authority nor ability to contract for an alternate processing facility. That ability rests solely with the Department of Finance Information Services Division (ISD). ISD, in cooperation with the Alabama Department of Transportation, has established an alternate processing facility located in Huntsville, Alabama at the Alabama Supercomputer Authority (ASA) installation. The facility will be made available for state agencies to use as resources become available. Public Health plans to participate with ISD and other state agencies in this project when it becomes available. We have not received an anticipated availability date.
05-9-1	The Immunization Division will confirm completion of modifications to the PHALCON system; conduct meetings with area nursing directors, clerical directors, area managers, and the Office of Program Integrity to evaluate management systems and processes; monitor implementation and adequacy of new management systems and processes; evaluate the effectiveness of new management systems and processes; and verify that PHALCON users are adequately trained. In addition, the Immunization Division will verify understanding of VFC documentation requirements.

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***Auditee Responses/Corrective Action Plans***  
***Section II – Financial Statement Findings (GAGAS)***  
***Department of Finance***  
***For the Year Ended September 30, 2006***

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As required by the Office of Management and Budget (OMB) Circular Number A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***, Section \_\_.315(c), the Department of Finance has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2006.

**Corrective Action Plan Details**

**Finding 01-01-02 – Information Access Security**

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to provide appropriate security for computer data and programs through the proper use of security software features and management policies. Computer data and programs are at risk of loss and corruption through error or intentional act. This is applicable to the Information Services Division and the Financial Resources Management System (FRMS) Application Development Section.

Contact person(s):   L. Cathern Bailey, CISSP  
IT Planning, Standards and Compliance  
Security - StateRACF Administration  
64 North Union Street,  
Folsom Administrative Building, Room 212  
(334) 353-4268  
FAX (334) 353-4469  
cathern.bailey@isd.alabama.gov

Corrective action planned: Action plan was developed in 2006 to implement security software features/capabilities. Several of the specific action steps are completed and ISD is on schedule with the implementation activities of the remaining action steps.

Anticipated completion date: August 1, 2008

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***Auditee Responses/Corrective Action Plans***  
***Section II – Financial Statement Findings (GAGAS)***  
***Department of Finance***  
***For the Year Ended September 30, 2006***

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**Finding 01-01-04 – Application Development and Maintenance**

We reviewed internal control policies and procedures affecting the ability of certain state agencies to provide assurance that only authorized computer application programs are developed or modified and that such programs and modifications function as intended and meet the needs of users. State agencies do not follow formal system development methodologies for new computer applications, modifications to existing applications, or emergency modifications. This increases the risk that unauthorized programs or changes will be made, programs or changes will not be tested, and programs or changes will not function as intended to meet user needs. State agencies do not adequately segregate the duties of personnel to prevent such errors from occurring. This is applicable to the Information Services Division and the FRMS Application Development Section.

Contact person(s): Julie Robertson, Assistant Director  
Applications Development and Support  
Information Services Division  
Folsom Administrative Building, Suite 758  
(334) 242-3052  
julie.robertson@isd.alabama.gov

Corrective action planned: The Information Services Division (ISD) is implementing a Help Desk and Service Management (HDSM) system to include all services that ISD provides. The HDSM system, which is approximately 50% installed, will address some of the findings regarding change management.

ISD currently has change management policies and procedures in place for the FRMS and Windows/Mainframe Applications development groups. ISD will also evaluate separate change management systems which may be needed to work with the HDSM.

Anticipated completion date: June 1, 2008



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***Auditee Responses/Corrective Action Plans***  
***Section II – Financial Statement Findings (GAGAS)***  
***Alcoholic Beverage Control Board***  
***For the Year Ended September 30, 2006***

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As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section \_\_.315(c), the Alcoholic Beverage Control Board has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2006.

**Corrective Action Plan Details**

**Finding 01-01-01 – Contingency Planning and Disaster Recovery**

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to be able to continue operations in the event the information technology resources of those agencies were adversely affected by man-made or natural disasters. Critical information technology resources and the related government functions served by those resources are at risk because of weaknesses in the control policies and procedures affecting contingency planning. The Department of Finance has made arrangements for an alternate backup processing facility that could be used in the event the primary processing facilities were destroyed or temporarily inaccessible. However, several agencies have not initiated implementation of the new alternate backup processing facilities and did not have policies and procedures to be followed in the event of a disaster.

Contact person(s): David Latham

Corrective action planned: The Alcoholic Beverage Control Board is in the process of developing policies and procedures to be followed in the event of a disaster. The current plan is to identify an alternative site to be utilized if such occurs. All data and source code will be stored on NAS (Network Attached Storage) onsite and replicated onto an offsite NAS device that is geographically located a minimum of 4 miles away from the central office processing facility. When needed necessary hardware and communications will be acquired, installed, and made operational at the offsite location. It is estimated that total operational capability can be reestablished within 10 working days. Limited capability should be available within 2 – 5 working days. These estimates are based on information provided by current communications and hardware vendors as to availability and delivery timelines. The acquisition request for the storage devices and related software is underway at the present time.

Anticipated completion date: July 1, 2008

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***Auditee Responses/Corrective Action Plans***  
***Section II – Financial Statement Findings (GAGAS)***  
***Department of Economic and Community Affairs***  
***For the Year Ended September 30, 2006***

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As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section \_\_.315(c), the Department of Economic and Community Affairs has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2006.

**Corrective Action Plan Details**

**Finding 01-01-01 – Contingency Planning and Disaster Recovery**

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to be able to continue operations in the event the information technology resources of those agencies were adversely affected by man-made or natural disasters. Critical information technology resources and the related government functions served by those resources are at risk because of weaknesses in the control policies and procedures affecting contingency planning. The Department of Finance has made arrangements for an alternate backup processing facility that could be used in the event the primary processing facilities were destroyed or temporarily inaccessible. However, several agencies have not initiated implementation of the new alternate backup processing facilities and did not have policies and procedures to be followed in the event of a disaster.

Contact person(s): Scott Randolph

Corrective action planned: In the winter of fiscal year 2007, ADECA learned that the alternative processing facility being developed by the Department of Finance would not have an IBM AS/400 computer system. Since ADECA's financial systems are developed on an AS/400 platform, ADECA would not be able to rely on the Finance Department for alternative processing facility services.

Therefore, ADECA began procedures during the Spring of fiscal year 2007 to establish an independent alternative processing facility. A second IBM AS/400 has been purchased and deployed in the Center for Commerce building and the original AS/400 was relocated. Space has been leased in the State House and the original AS/400 was moved to that location. Both systems, primary and alternate, are now operational. In the event of a loss of the primary system, disaster recovery tapes can be retrieved from the offsite vault storage, loaded on the alternate system in the State House, and processing can resume within less than 24 hours.

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***Auditee Responses/Corrective Action Plans***  
***Section II – Financial Statement Findings (GAGAS)***  
***Department of Economic and Community Affairs***  
***For the Year Ended September 30, 2006***

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ADECA has also purchased iTera high availability software for these two AS/400 systems and are presently in the process of deploying this software and training staff on its use. This software will perform real-time mirroring of the primary AS/400 to the alternate AS/400, keeping databases up to date at all times and eliminating the need to retrieve and load disaster recovery tapes. Failover will be a matter of minutes in the event that the primary system fails.

Anticipated completion date: September 1, 2007

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***Auditee Responses/Corrective Action Plans***  
***Section II – Financial Statement Findings (GAGAS)***  
***Department of Education***  
***For the Year Ended September 30, 2006***

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As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section \_\_.315(c), the Department of Education has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2006.

**Corrective Action Plan Details**

**Finding 01-01-01 – Contingency Planning and Disaster Recovery**

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to be able to continue operations in the event the information technology resources of those agencies were adversely affected by man-made or natural disasters. Critical information technology resources and the related government functions served by those resources are at risk because of weaknesses in the control policies and procedures affecting contingency planning. The Department of Finance has made arrangements for an alternate backup processing facility that could be used in the event the primary processing facilities were destroyed or temporarily inaccessible. However, several agencies have not initiated implementation of the new alternate backup processing facilities and did not have policies and procedures to be followed in the event of a disaster.

Contact person(s): Scott Crews

Corrective action planned: The Department of Education will create policies and procedures for using the alternate backup processing facilities for applications and data that have heretofore resided on the Department of Finance - Information Services Division's computing facilities. Using the format and structure of selected other agencies that have successfully made preparations to utilize the Department of Finance's backup processing protocol, the Department of Education will formulate and implement the appropriate backup policies and procedures.

Anticipated completion date: December 2008

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***Auditee Responses/Corrective Action Plans***  
***Section II – Financial Statement Findings (GAGAS)***  
***Department of Human Resources***  
***For the Year Ended September 30, 2006***

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As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section \_\_.315(c), the Department of Human Resources has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2006.

**Corrective Action Plan Details**

**Finding 01-01-01 – Contingency Planning and Disaster Recovery**

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to be able to continue operations in the event the information technology resources of those agencies were adversely affected by man-made or natural disasters. Critical information technology resources and the related government functions served by those resources are at risk because of weaknesses in the control policies and procedures affecting contingency planning. The Department of Finance has made arrangements for an alternate backup processing facility that could be used in the event the primary processing facilities were destroyed or temporarily inaccessible. However, several agencies have not initiated implementation of the new alternate backup processing facilities and did not have policies and procedures to be followed in the event of a disaster.

Contact person(s): Jerel Scoggins

Corrective action planned: It is our understanding per a meeting held with the Finance Information Services Division (FISD) Disaster Recovery manager on July 10, 2007 that they have not yet developed any processes or procedures, a FISD responsibility under FISD Policy 700-00 released September 22, 2006, that other agencies need to follow in utilizing the Alabama Super Computer Authority alternate site in Huntsville. FISD also indicated that the alternate processing site is owned by the Department of Transportation, and to date they are the only ones who have tested the capabilities of the alternate site. FISD further informed us that critical services of law enforcement would have first priority, critical medical services would be second, and critical Human Resources services would be third in priority for services brought up on the alternate site in the event of a disaster.

DHR has requested to begin the process of scheduling with FISD the tests at the alternate site, but have not had a response to date. Planning efforts are proceeding in regard to identification of systems and resources necessary for successful operation from the alternate processing site. When additional information is provided by FISD, DHR will finalize plans and proceed with testing and integrating procedures into the DHR business continuity plan.

Anticipated completion date: Not yet determined.

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***Auditee Responses/Corrective Action Plans***  
***Section II – Financial Statement Findings (GAGAS)***  
***Department of Mental Health and Mental Retardation***  
***For the Year Ended September 30, 2006***

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As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section \_\_.315(c), the Department of Mental Health and Mental Retardation has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2006.

**Corrective Action Plan Details**

**Finding 01-01-01 – Contingency Planning and Disaster Recovery**

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to be able to continue operations in the event the information technology resources of those agencies were adversely affected by man-made or natural disasters. Critical information technology resources and the related government functions served by those resources are at risk because of weaknesses in the control policies and procedures affecting contingency planning. The Department of Finance has made arrangements for an alternate backup processing facility that could be used in the event the primary processing facilities were destroyed or temporarily inaccessible. However, several agencies have not initiated implementation of the new alternate backup processing facilities and did not have policies and procedures to be followed in the event of a disaster.

Contact person(s): Dan Evans

Corrective action planned: Department of Mental Health and Mental Retardation (DMH/MR) is dependent upon the State of Alabama's Information System Division (ISD) to remedy the deficiency regarding an alternate processing facility. ISD, in cooperation with the Department of Transportation, has established an off-site processing facility at the Alabama Supercomputer Authority in Huntsville, Alabama. DMH/MR will cooperate with ISD and other state agencies as the off-site processing becomes available.

Anticipated completion date: Not yet determined.

Effective January 1, 2007, the Department of Mental Health and Mental Retardation (DMH/MR) has initiated a new client information/billing system for Mental Retardation state and federally funded community services. DMH/MR participates in an Advanced Disaster Recovery Services Plan for this client information/billing system. The primary service site for this service is in Andover Massachusetts. A completely replicated environment is in a remote data center located in California. Disaster recovery solutions will be delivered within 4 business hours of notification of failure. Substance Abuse services funded by the Substance Abuse Block Grant, Medicaid, and state funds will be added to this system beginning April 1, 2007.

Contact person(s): Fordyce Mitchel, Kristopher Vilamaa

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***Auditee Responses/Corrective Action Plans***  
***Section II – Financial Statement Findings (GAGAS)***  
***Department of Transportation***  
***For the Year Ended September 30, 2006***

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As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section \_\_.315(c), the Department of Transportation has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2006.

**Corrective Action Plan Details**

**Finding 01-01-05 – Physical Security**

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to provide assurance that critical computer hardware and software were protected from unauthorized physical access. Although the Computer Services Bureau of the Department of Transportation implemented procedures to correct the previous finding to the extent possible, the Equipment Procurement and Services Bureau, which is responsible for the physical security of the central office building, did not have adequate policies and procedures in place for physical security over critical operations of the Department.

Contact person(s): Rodney Rives – IT Operations Manager

Corrective action planned: At present there is one remaining door accessing the Computer Services' Operations area that needs to be secured in order to prevent access to those who do not work on the Operations floor. Computer Services has procured the necessary hardware to secure this door via a magnetic door lock and card key reader. The magnetic lock and card reader will have to be installed by Vision, Inc., from Birmingham. We have asked the Equipment Bureau to contact Vision to schedule this installation.

Anticipated completion date: July 31, 2007

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***Auditee Responses/Corrective Action Plans***  
***Section II – Financial Statement Findings (GAGAS)***  
***Department of Transportation***  
***For the Year Ended September 30, 2006***

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**Finding 01-01-06 – Hiring, Training, and Personnel Policies**

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to provide assurance that employees hired to work in sensitive areas (i.e., the information technology environment) had the proper education and training necessary to perform the required duties and that such employees indicated no evidence of prior actions that might have a negative impact on the required duties. The Department of Transportation did not obtain evidence that prospective employees to be hired for sensitive work had not been involved in prior criminal activity that might have a negative impact on the employee's ability to perform the required duties.

Contact person(s): Guin Butler – Information Systems Manager

Corrective action planned: Computer Services has obtained clearance from ALDOT's Legal Bureau and our Administration to perform background checks of all new hires for the Bureau. As a result we will immediately initiate background checks for prospective new hires in order to better ensure that these employees have not been involved in prior criminal activity that might have a negative impact on the employee's ability to perform the required duties.

Anticipated completion date: Immediately



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***Auditee Responses/Corrective Action Plans***  
***Section II – Financial Statement Findings (GAGAS)***  
***Office of State Treasurer***  
***For the Year Ended September 30, 2006***

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As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section \_\_.315(c), the Office of the State Treasurer has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2006.

**Corrective Action Plan Details**

**Finding 01-01-01 – Contingency Planning and Disaster Recovery**

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to be able to continue operations in the event the information technology resources of those agencies were adversely affected by man-made or natural disasters. Critical information technology resources and the related government functions served by those resources are at risk because of weaknesses in the control policies and procedures affecting contingency planning. The Department of Finance has made arrangements for an alternate backup processing facility that could be used in the event the primary processing facilities were destroyed or temporarily inaccessible. However, several agencies have not initiated implementation of the new alternate backup processing facilities and did not have policies and procedures to be followed in the event of a disaster.

Contact person(s): Tom Ray

Corrective action planned: Treasury became an Operational Unit of Finance ISD to utilize their business continuity/recovery processes, backup capabilities, and alternate processing facilities. The agreement was consummated in August 2006. All programs have migrated to Finance ISD, except gas tax distribution and bank reconciliation which are written in COBOL. These programs must be converted to Visual Basic in order for Finance ISD to support the applications. The warrant payment process is being converted to a bank's positive pay/reconcilement system and this should be completed by September 2007.

Anticipated completion date: Becoming an Operational Unit within ISD is complete. Completion of the conversion of the two COBOL programs, and their migration to ISD: September 2008.

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***Auditee Responses/Corrective Action Plans***  
***Section II – Financial Statement Findings (GAGAS)***  
***Office of State Treasurer***  
***For the Year Ended September 30, 2006***

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**Finding 01-01-04 – Application Development and Maintenance**

We reviewed the internal control policies and procedures affecting the ability of certain state agencies to provide assurance that only authorized computer application programs are developed or modified and that such programs and modifications function as intended and meet the needs of users. State agencies do not follow formal system development methodologies for new computer applications, modifications to existing applications, or emergency modifications. This increases the risk that unauthorized programs or changes will be made, programs or changes will not be tested, and programs or changes will not function as intended to meet user needs. State agencies do not adequately segregate the duties of personnel to prevent such errors from occurring.

Contact person(s): Tom Ray

Corrective action planned: Creation of written system development methodologies for new application programs, modifications to existing programs, and emergency modifications, including testing procedures and segregation of duties for proper control.

Anticipated completion date: Completed June 2007

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***Auditee Responses/Corrective Action Plans***  
***Section III – Federal Awards Findings and Questioned Costs***  
***Department of Finance***  
***For the Year Ended September 30, 2006***

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As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section \_\_.315(c), the Department of Finance has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2006.

**Corrective Action Plan Details**

**Finding 02-1-1 – Statewide Cost Allocation Plan**

OMB Circular A-87, Attachment C, Subsection G.2, provides that an internal service fund may establish and maintain a reasonable level of working capital reserve in addition to the full recovery of costs. A working capital reserve as part of retained earnings of up to sixty days cash expenses for normal operating purposes is considered reasonable.

During our testing of the State of Alabama Statewide Cost Allocation Plan, Section II-Direct Billed Costs, it was determined that some Internal Service Funds continue to have working capital reserves in excess of a sixty-day reserve. Our analysis was made using financial statements for the fiscal year ended September 30, 2006. This is considered noncompliance with OMB Circular A-87, Attachment C, Subsection G.2.

The following internal service funds had reserves exceeding the sixty-day reserve: the Information Services Division Fund and the Service Division Funds (Motor Pool and Mail and Supply Room), all of which are administered by the Department of Finance.

In the fiscal year ending September 30, 2002 corrective action plan submitted by the Department of Finance, the agency stated that future period billing rates would be adjusted to reduce working capital reserves. The agency has taken some steps to reduce the working capital reserves. As stated in the Summary Schedule of Prior Audit Findings for the year ended September 30, 2003, the agency is in the process of negotiating directly with the Department of Health and Human Services regarding the reduction of its reserves. The status of the working capital reserves will be reviewed during the next audit.

Contact person(s): Marilyn Dozier  
Jackie McCall

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***Auditee Responses/Corrective Action Plans***  
***Section III – Federal Awards Findings and Questioned Costs***  
***Department of Finance***  
***For the Year Ended September 30, 2006***

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Corrective action planned: For the Information Services Fund, the Department of Finance has negotiated directly with the Department of Health and Human Services (DHHS). The overcharges for fiscal years prior to 2003 have been paid. With the negotiations completed for those fiscal years, working capital balances accumulated to that point are not contested by DHHS and should not be included in the calculation of working capital. The negotiations for the 2003 fiscal year are currently being finalized with DHHS. The Department is working directly with DHHS to resolve overcharges by fiscal year for 2003 and forward. The Department continues to analyze and adjust rates for an end result of decreasing amounts being paid to DHHS for each subsequent fiscal year.

For the Motor Pool Fund, the Finance Department experienced an increase in operating expenses with the escalation of the cost of gasoline and other petroleum products and did not raise rates to offset. The Motor Pool plans to increase the size of their fleet in addition to the usual replacement of older vehicles. Working capital is being reduced with the purchase of these vehicles. Some of these vehicles are alternative fuel vehicles, and the Motor Pool is making capital investments to incorporate these enhancements into their operation.

With the Central Mail and Supply Fund, the Mail facility upgraded its operation by modernizing equipment and increasing staffing levels. Some of these improvements were also made to comply with new Postal Service regulations. By covering these additional expenditures, working capital is being reduced.

Anticipated completion date: July 31, 2009

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***Auditee Responses/Corrective Action Plans***  
***Section III – Federal Awards Findings and Questioned Costs***  
***Alabama Medicaid Agency***  
***For the Year Ended September 30, 2006***

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As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section \_\_.315(c), the Alabama Medicaid Agency has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2006.

**Corrective Action Plan Details**

**Finding 02-2-1 – Medicaid Cluster**

The U. S. Department of Health and Human Services, Centers for Medicare and Medicaid Services notified the Alabama Medicaid Agency that approval of the State's Medicaid Waiver under section 1915(b)(1) and (4) of the Social Security Act known as the Partnership Hospital Plan (PHP) would expire April 29, 2002. Thereafter, Alabama Medicaid operated the PHP program under the Alabama Medicaid Agency State Plan. Both the Waiver and State Plan provided for a capitation rate that was paid monthly for each Medicaid eligible, instead of payments to hospitals when services were received. Section AL-95-14 of the State Plan pertaining the operation of the Partnership Hospital Plan provides for a specific methodology to calculate the capitation rates. It appears that the capitation rates paid after the Waiver ended were not computed in accordance with provisions of the State Plan, Section AL-95-14.

Contact person(s): Terry Bryant

Corrective action planned: The State has submitted State Plan Amendment 05-009 that addresses hospital reimbursement. We expect approval very soon.

Anticipated completion date: September 30, 2007

**Finding 04-2-3 – Medicaid Cluster**

31 USC 7502(f)(2)(B) (Single Audit Act Amendments of 1996 (Pub. L. 104-156)) provides that each pass-through entity shall monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means. Alabama Medicaid Agency has developed but has not implemented monitoring procedures for funds passed through to the City of Tallassee and the Chambers County Boards of Education.

Contact person(s): Karen Wainwright

Corrective action planned: We will obtain copies of the subrecipient's A-133 audits and set up monitoring plans.

Anticipated completion date: September 30, 2007

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***Auditee Responses/Corrective Action Plans***  
***Section III – Federal Awards Findings and Questioned Costs***  
***Alabama Medicaid Agency***  
***For the Year Ended September 30, 2006***

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**Finding 06-2-1 – Medicaid Cluster**

According to 42 CFR section 431.812(a), the Alabama Medicaid Agency must review all active cases selected from the State agency's lists of cases authorized eligible for the review month, to determine if the cases were eligible for services during all or part of the month under review and, if appropriate, whether the proper amount of recipient liability was computed. During our testing of Medicaid's Eligibility Quality Control process, we noted numerous errors in the spreadsheet used to calculate the lower limit and error rate. Also, we noted instances where the incorrect PHP (Partnership Hospital Plan) capitation rate was used to calculate liabilities. This is considered a material weakness in internal controls and material noncompliance.

Contact person(s): Jacqueline Thomas or Cynthia Dobyne

Corrective action planned: Spreadsheet discrepancies were due to formulas being omitted from cells that calculated the lower limit error rate. The spreadsheet was copied over from a previous spreadsheet and certain sections did not copy. All cells used in the spreadsheets were verified to ensure they contained the correct formula. For the time period in question, all case files were again reviewed for accuracy, claims data and PHP rates were recalculated and the error rate was amended. A corrected copy of the error rate was sent to CMS and other divisions as required. Further review of prior months revealed that this was an isolated incident and the correct payment methodology and calculations were used for previous periods.

In order to ensure that this discrepancy will not occur again, we will verify that the cells contain all necessary formulas to calculate the error rate prior to use of the spreadsheet. We will also implement use of the Recalculation of Quality Control Payment Error Rate spreadsheet for each review period. This spreadsheet, which was obtained from the Examiner, will be used to confirm that calculations are accurate. The Recalculation of Quality Control Payment Error Rate spreadsheet is designed to calculate the error rate differently from the current process. It uses the same methodology; however, total dollars spent including misspent dollars and number of eligibles are used to derive the error rate. Each process should have the same annual and lower limits if utilized correctly.

To ensure the correct capitation rates are used, Quality Control staff will receive monthly updates to Medicaid recipient listing files that are to be used to determine capitation rates. Quality Control will also contact Financial Management at the end of each six-month sample period to ensure that there are no changes in the capitation rate. Financial Management will immediately notify the Associate Director of the Quality Control Unit of rate changes.

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***Auditee Responses/Corrective Action Plans***  
***Section III – Federal Awards Findings and Questioned Costs***  
***Alabama Medicaid Agency***  
***For the Year Ended September 30, 2006***

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Quality Control further plans to change the current procedure for the review/calculation of claims. PHP calculations will be completed by the MCBS, files will be distributed to the QC reviewers to pull claims, re-verify PHP rates and calculate claim amount(s) for recipients. The unit supervisor will conduct a 100% review of completed reviews for correctness. The above documents will be subject to further review by the division director.

Anticipated completion date: The deficiencies cited by the Examiners were corrected in February – April 2007 and all parties were notified of corrections to the error report for the time frame in question. This had no impact on the error rate as the state was below the 3% tolerance level. The above cited policies and procedures were implemented effective March 1, 2007.

**Finding 06-2-2 – Medicaid Cluster**

The Alabama Medicaid Agency has several memorandums of understanding and provider contracts with state agencies that serve clients that are determined eligible for Medicaid services. The agreements and contracts provide that the State agency pay to the Alabama Medicaid Agency the State matching share of Medicaid benefits paid on behalf of Medicaid eligible clients served by the respective state agency. The Center for Medicare and Medicaid Services requires that these intergovernmental transfers (IGTs) meet certain requirements of Section 1903(w) (6) (A) of the Social Security Act, Section 1902(a) (30) of the Social Security Act, and 42 CFR 433.51.

Section 1902(a) (30) of the Social Security Act requires that funds cannot come from Medicaid payments made to the provider. If payments are used as an IGT for funding purposes then the IGT should be treated as an offset to expenditures or a refund of previous payments.

We determined that the Departments of Mental Health and Mental Retardation, Human Resources, Rehabilitation Services and Youth Services made intergovernmental transfers by processing transactions that were refunds against receipts. The refunds were coded to the same revenue codes used to record the receipt of payments for Medicaid benefits.

Although IGTs were processed as refunds against receipts, each state agency had sufficient non-federal revenues that could be used as the state share for Medicaid benefits.

Contact person(s): Terry Bryant

Corrective action planned: Medicaid will work with the other Agencies to correct this coding. We believe Human Resources corrected this practice at the beginning of fiscal year 2007. We met with the CFO from Mental Health this week and they agreed to correct this coding.

Anticipated completion date: September 30, 2007

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***Auditee Responses/Corrective Action Plans***  
***Section III – Federal Awards Findings and Questioned Costs***  
***Department of Economic and Community Affairs***  
***For the Year Ended September 30, 2006***

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As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section \_\_.315(c), the Department of Economic and Community Affairs has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2006.

**Corrective Action Plan Details**

**Finding 06-3-1 – CDBG, WIA Cluster, and Low Income Home Energy Assistance Program**

According to OMB Circular A-133 Compliance Supplement, the pass-through entity is responsible for ensuring that subrecipients expending \$500,000 more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period; issuing management decisions on audit findings within six months after receipt of the subrecipient's audit report; ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings; and ensuring that subrecipient noncompliance is properly reflected in the pass-through entity's records and reports.

During our review of 35 subrecipient audit files maintained in the Audit Division the following errors were noted:

The Alabama Department of Economic and Community Affairs' Audit Division enters all contracts for federal grant programs by fiscal year on a report (Audit Division's Due and Delinquent Report) to determine whether subrecipients received grants totaling \$500,000 or more and are required to have A-133 audits. All contracts were not entered for two subrecipients of CDBG program funds. Because of the omissions, the report did not reflect that these subrecipients were required to have A-133 audits.

We found four instances in which the Department did not issue management decisions on audit reports with findings within six months after the receipt of the subrecipient's audit report. In one of the four instances, the audit report was misfiled in the audit file of another subrecipient. The report had not been logged in or stamped as received or reviewed.

This is a reportable condition in internal control and noncompliance with federal laws and regulations.

Contact person(s): Wendy S. Hester, CIA, Audit Manager



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***Auditee Responses/Corrective Action Plans***  
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Corrective action planned: In the future, delinquency reports will be reviewed more stringently to ensure that single audits are received when originally due or by the granted extension dates. Additionally, reports that have findings will have management decisions issued in a timely manner. Additionally, staff will be more careful in placing files back in the appropriate place to ensure that all files are properly logged in and reviewed as required by OMB Circular A-133.

One of the reports noted included findings that only related to the federal Head Start program. This program is not administered by ADECA; therefore, ADECA is not required to issue a management decision related to this report. In the instance of the misfiled report, this file was pulled to gather information for a special legislative report and was inadvertently placed in another agency's report file.

Anticipated completion date: Immediately

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***Auditee Responses/Corrective Action Plans***  
***Section III – Federal Awards Findings and Questioned Costs***  
***Department of Education***  
***For the Year Ended September 30, 2006***

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As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section \_\_.315(c), the Department of Education has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2006.

**Corrective Action Plan Details**

**Finding 06-4-1 – Title I Grants to LEAs and Disability Determination**

An adequate system of internal controls should ensure that computer generated reports used in the Cash Management Improvement Act (CMIA) drawdown process and interest liability calculation are accurate. During our testing of cash management, we noted that CMIA reports used in calculating the interest liability contained some incorrect deposit and voucher release dates. Also, CMIA reports used to calculate the amount of federal drawdowns included some vouchers more than once, and did not include some other vouchers that should have been included. These errors occurred whenever there was a Budgetary Expenditure Control System (BECS) failure during the nightly cycle and subsequent restoration of the system. BECS is the Department of Education's primary automated accounting system.

The interest liability calculation is based upon pre-issuance days, clearance days and the amount of drawdowns. Although the total amount of the errors caused by BECS failures is not readily determinable, the date changes, duplicate vouchers, and omitted vouchers on the CMIA reports would have an effect on the drawdown of federal funds and the interest liability calculated.

Contact person(s): Matt Touhey

Corrective action planned: We have adjusted the process to include a full backup at the beginning of each nightly run. This step will preserve the CMIA data entered each day and will eliminate duplicate deposit and voucher release dates.

Anticipated completion date: Completed as of June 1, 2007

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***Auditee Responses/Corrective Action Plans***  
***Section III – Federal Awards Findings and Questioned Costs***  
***Department of Education***  
***For the Year Ended September 30, 2006***

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**Finding 06-4-2 – Migrant Education**

An adequate system of internal controls over reporting ensures that data used to compile reports is accurate and complete. During testing of the key line items of the annual Consolidated State Performance Report, Part II it was noted that the underlying supporting documentation contained mathematical errors. As a result of mathematical errors, the key line item totals appear to be inaccurate and incomplete. This is a reportable condition in internal controls.

Contact person(s): Dell McLendon

Corrective action planned: The Migrant Education Program made some organizational changes related to data collection and entry. There are now three regional coordinators who are responsible for collecting and entering data in the migrant data base as opposed to having each migrant program site enter its own data. The data is now entered in a more uniform and consistent manner. We are now in the process of developing procedures for checking the data before it is used in the annual Consolidated State Performance Report, Part II.

Anticipated completion date: November 1, 2007

**Finding 06-4-3 – Disability Determination**

An adequate system of internal controls over reporting ensures that data used to compile reports is accurate and complete. The Department of Education is required to submit the SSA-4514 report which is a time report of personnel services. The 3<sup>rd</sup> and 4<sup>th</sup> quarter SSA-4514 reports were supported by spreadsheets prepared to compile the leave and holiday hours which contained mathematical errors. Also, the leave and holiday hours were not verifiable because the supporting documentation was not maintained. The overtime hours entered on the 3<sup>rd</sup> quarter report were untraceable to the accounting records. The overtime hours reported were less than the actual overtime hours in the accounting records. Due to the discrepancies noted, some of the data reported on the SSA-4514 reports reviewed is not correct. Therefore, the SSA-4514 reports reviewed are inaccurate and incomplete. This is a reportable condition in internal controls.

Contact person(s): Dayle Donaldson

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***Auditee Responses/Corrective Action Plans***  
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***For the Year Ended September 30, 2006***

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Corrective action planned: The Disability Determination Service requested a program to automate the collection and reporting of the data for the SSA-4514 report approximately four years ago and will re-submit this program request to the State Department of Education's Information Systems Services Division. Completion of this program request should eliminate the potential for human error. Steps were taken in January 2007 to ensure that the appropriate documentation used in this report is maintained. The SSA-4514 report is due within 30 days from the conclusion of each quarter and does not always allow adequate time to obtain complete overtime information. The DDS will continue to submit report revisions to SSA when the information submitted on the SSA-4514 changes.

Anticipated completion date: Re-submission of the service request to SDE ISS has already been submitted. Procedures were put in place in January 2007 to ensure that documentation for the SSA-4514 is maintained. Re-submission of the SSA-4514 report for overtime changes/revisions will be ongoing.

**Finding 06-4-4 – Child and Adult Care Food**

The Department of Education administers the Child and Adult Care Food Program (CACFP). CACFP provides nutritious meals and snacks served to eligible children and adults who are enrolled for care at participating child care centers, adult day care centers, outside-school-hours care centers, after-school at risk programs, family and group day care homes, and shelters. OMB Circular A-133 requires that non-federal entities that expend \$500,000 or more in a year in Federal awards shall have a single audit conducted for that year. The pass-through entity is responsible for ensuring that the required audits are completed within nine months of the end of the subrecipient's audit period, unless a longer period is agreed to in advance by the Federal agency that provided the funding or a different period is specified in a program-specific audit guide. The pass-through entity shall issue a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensure that subrecipient takes timely and appropriate corrective action on all audit findings. We requested to review audits for ten out of 26 CACFP subrecipients as evidence that subrecipients had obtained audits as required. The Department did not have an audit on file for six of the ten subrecipients selected for testing. The Department did not perform follow up procedures or withhold funding until subrecipients met audit requirements. Also, the Department did not ensure that a management decision was issued on audit findings within six months after receipt of the subrecipient's audit report nor did the Department ensure that subrecipients were taking appropriate and timely corrective action on all audit findings.

Contact person(s): Perry Fulton

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***Auditee Responses/Corrective Action Plans***  
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***For the Year Ended September 30, 2006***

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Corrective action planned: Non-federal entities that expend \$500,000 or more in a year in Federal awards are to have a single audit conducted for that year. The audit manager responsible for the tracking and review of the required audits is no longer employed by the SDE. A new audit manager will be in place within the next 45 days. At that time, the review cycle and procedures will be amended to ensure that the required audits are completed within nine months of the end of the subrecipient's audit period. We will issue an appropriate decision on audit findings within six months after receipt of the subrecipient's audit report, and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. We will take steps to ensure that all required audits for are on file for all required subrecipients. Letters are sent to all subrecipients advising of A-133 audit requirements and requesting pertinent information be provided to the SDE so that both the SDE and subrecipients meet their audit requirements. The SDE will not withhold program payments when the corrective action plan was late for good cause. The SDE will develop further procedures to withhold funds for those situations where the reason for the late receipt of the audit report was not for good cause. We will ensure that a management decision was issued on audit findings within six months after receipt of the subrecipient's audit report and follow up to ensure that subrecipients are taking appropriate and timely corrective action on all audit findings.

Anticipated completion date: October 2007

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***Auditee Responses/Corrective Action Plans***  
***Section III – Federal Awards Findings and Questioned Costs***  
***Emergency Management Agency***  
***For the Year Ended September 30, 2006***

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As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section \_\_.315(c), the Alabama Emergency Management Agency has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2006.

**Corrective Action Plan Details**

**Finding 06-5-1 – Public Assist, Hazard Mitigation, and Chemical Stockpile Emergency Preparedness**

31 CFR Subpart B, Section 205.33 states that, “a State must minimize the time between the drawdown of Federal funds from the Federal Government and their disbursement for Federal program purposes.” Twenty cash drawdowns were selected and tested to determine if procedures established to minimize the time elapsing between drawdowns and disbursement of funds appeared to be operating effectively; that amounts drawn were consistent with current cash needs; that documentation was adequate to support the drawdown; and that negative draws were only performed for a valid reason, i.e. refund, de-obligation, etc. In three instances, it appeared that procedures established to minimize the time elapsing between drawdowns and disbursement of funds were not operating effectively. In eight instances, it appeared that negative draws were performed for reasons other than a refund or de-obligation. These reasons included the improper cancellation of warrants, and correcting errors where federal funds were initially drawn from the wrong source. These eight instances are also evidence that the procedures established to minimize the time elapsing between drawdowns and disbursement of funds appear not to be operating effectively. These errors are evidence of a weakness in internal control over cash management procedures and noncompliance with 31 CFR, Part 205, Subpart B.

Contact person(s): James Lee

Corrective action planned: During the audit period, the Alabama Emergency Management Agency was changing its drawdown procedures to begin using daily Easytrieve printouts to determine appropriate accounts and amounts for federal draws. Various problems were encountered during the transition, including human error that resulted in errors in draws that then required negative draws to correct. AEMA has already resolved all known issues with the printout/drawdown procedure and has added a routine review of each draw to ensure correct accounts and amounts were drawn. Regarding the cancelled warrants, an employee assigned to enter Public Assistance payment vouchers processed several payments in error over an extended period, then cancelled those warrants and reissued using correct accounts and amounts, but the corrections were not done in a timely manner. That person is no longer employed with AEMA and no further such problems have been identified.

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***Auditee Responses/Corrective Action Plans***  
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Anticipated completion date: While AEMA continually strives to improve/enhance procedures, we consider this corrective action already completed.

**Finding 06-5-2 – Public Assist, Hazard Mitigation, and Chemical Stockpile Emergency Preparedness**

OMB Circular A-133 Compliance Supplement, Part 3, Section M – Subrecipient Monitoring documents the following responsibilities of a pass-through entity:

“Subrecipient Audits – (1) ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient’s fiscal year have met the audit requirements and that the required audits are completed within nine months of the end of the subrecipient’s audit period, (2) issuing a management decision on audit findings within six months after receipt of the subrecipient’s audit report, and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.”

Out of ten subrecipients selected, five did not submit audit reports as required. One of the audits submitted did not meet the audit requirements of OMB Circular A-133. In addition, the Alabama Emergency Management Agency did not maintain documentation to support follow-up action with the subrecipients regarding these audit reports. These errors are indicative of a weakness in internal controls over subrecipient monitoring and noncompliance with the requirements of OMB Circular A-133.

Contact person(s): James Lee

Corrective action planned: The Alabama Emergency Management Agency will be more aggressive in assuring that subrecipients provide audit reports as required and in a timely manner. Documentation will be enhanced such that letters are written as appropriate rather than using telephone communication or emails.

Anticipated completion date: September 30, 2007

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***Auditee Responses/Corrective Action Plans***  
***Section III – Federal Awards Findings and Questioned Costs***  
***Department of Human Resources***  
***For the Year Ended September 30, 2006***

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As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section \_\_.315(c), the Department of Human Resources has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2006.

**Corrective Action Plan Details**

**Finding 05-6-3 – TANF**

45 CFR 265.7 requires each State's quarterly TANF Data Report (ACF-199) be complete and accurate. This requires that the reported data accurately reflect the information available to the State in the case records, financial records, and automated data systems. The data should be free from computational errors and be internally consistent. The State should report data on all required elements for all families. These reports are used to determine if the State has met or exceeded their annual work participation rate standards. Failure to do so could mean a penalty of up to 21 percent of the grant funds. We compared the data included in the ACF-199 Report to the client files for the key lines items as stated in the March 2006 Compliance Supplement for this report.

In order to test the completeness and accuracy of the ACF-199 Report, we traced the information from the ACF-199 Report to the case files that are maintained at the county level. During our testing of the ACF-199 Report, we noted the following errors.

- (1) There were two instances noted at both the Butler County Department of Human Resources and the Chambers County Department of Human Resources where the ACF-199 Report indicated that the date of birth (a key line item) for a member of the client's family was something other than the date that was indicated on the birth certificate or other official record.
- (2) We noted one instance at both the Butler County Department of Human Resources and the Jefferson County Department of Human Resources where a client did not have their required elements included on the ACF-199 Report for the month of February 2006.
- (3) We noted 24 instances where the ACF-199 Report indicated a different number of months counting towards the federal benefit time limit (a key line item) than what the Department of Human Resources case file or automated data system actually indicated. In most instances, it appears that the ACF-199 Report reflected an additional month of benefits had been received by the client.

This is a reportable condition and noncompliance with federal laws and regulations.



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***Auditee Responses/Corrective Action Plans***  
***Section III – Federal Awards Findings and Questioned Costs***  
***Department of Human Resources***  
***For the Year Ended September 30, 2006***

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Contact person(s): Melody Armstrong

Corrective action planned: (1) Training and supervisory case record reviews and state office re-reviews will continue to identify these oversights and bring attention to this matter.

(2) Programming modifications to correctly select cases.

(3) Programming modifications to correct the error of the discrepancy in the two data sources.

Anticipated completion date: (1) These are routine, ongoing activities. (2) December 31, 2007  
(3) December 31, 2007

**Finding 05-6-4 – TANF**

45 CFR 265.7 requires each State's quarterly SSP-MOE Data Report (ACF-209) be complete and accurate. This requires that the reported data accurately reflect the information available to the State in the case records, financial records, and automated data systems. The data should be free from computational errors and be internally consistent. The State should report data on all required elements for all families. These reports are used to determine if the State has met or exceeded their annual work participation rate standards. Failure to do so could mean a penalty of up to 21 percent of the grant funds. We compared the data included in the ACF-209 Report to the client files for the key lines items as stated in the March 2006 Compliance Supplement for this report.

In order to test the completeness and accuracy of the ACF-209 Report, we traced the information from the ACF-209 Report to the case files that are maintained at the county level. During our testing of the ACF-209 Report, we noted the following errors.

There was one instance noted at the Jefferson County Department of Human Resources where the ACF-209 Report reflected the wrong date of birth for a family member in a particular case. Also, there were three instances noted at the Mobile County Department of Human Resources where the ACF-209 Report reflected the wrong date of birth for a family member in a particular case. In each of the instances noted, there was documentation in the case record that indicated the correct date of birth for the applicable family members.

This is a reportable condition and noncompliance with federal laws and regulations.

Contact person(s): Melody Armstrong

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***Auditee Responses/Corrective Action Plans***  
***Section III – Federal Awards Findings and Questioned Costs***  
***Department of Human Resources***  
***For the Year Ended September 30, 2006***

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Corrective action planned: Training and supervisory case record reviews and state office re-reviews will continue to identify these oversights and bring attention to this matter.

Anticipated completion date: These are routine, ongoing activities.

**Finding 05-6-6 – Food Stamps**

To ensure that the State operates its Food Stamp Program in compliance with the law, program regulations, and the State agency's plan of operation, the State is required to have a system for monitoring and improving the administration of the program (7 CFR 275.1), particularly the accuracy of eligibility and benefit determinations. Accuracy involves not only the correct determinations of eligibility and benefit amounts, but also maintaining accurate information on those who apply for benefits.

We tested 60 food stamp case files for compliance with federal program requirements relating to the Food Stamp program. During our testing, we noted one case where it appears the Department did not appear to be complying with the requirement to accurately and completely process and store all case file information for eligibility determination and benefit calculation. The error appeared to be an oversight and it resulted in an overpayment. The following discrepancy was noted during our testing.

During our testing of the food stamp files at the Montgomery County Department of Human Resources, we noted one instance where the Department did not include all the family income in the budget. There were two family members that were included in determining the family size; however, their income was not included in the budget.

This error resulted in a known questioned cost of \$196.00 for the test month and a likely (projected) questioned cost of \$266,260.94 for the test month.

In addition, there was \$2,076.00 in questioned cost for the preceding and subsequent months related to the tested case files.

This is a reportable condition and noncompliance with federal laws and regulations. Total questioned cost is \$2,272.00.

Contact person(s): Patricia Huffman

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***Auditee Responses/Corrective Action Plans***  
***Section III – Federal Awards Findings and Questioned Costs***  
***Department of Human Resources***  
***For the Year Ended September 30, 2006***

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Corrective action planned: Montgomery County is currently under corrective action for earned and unearned income from the State Management Evaluation (ME) conducted in May 2007. The following include the specific activities that have or will be used to address the deficiencies: development of ME Corrective Action training (June 8, 2007) by Program Supervisor and Financial Support Supervisors; Special ME Corrective Action training (June 20, 2007) for local workers provided by local supervisory staff, on-going refresher policy training in monthly staff meetings, targeted case reviews (July and August 2007), discussion of errors with workers in monthly meetings with an e-mail to Program Supervisor and Directors regarding the conference and identifying causal factor(s), review of errors at Quality Assurance bi-monthly meetings. This particular case will be made a part of the current CAP.

The State monitoring will be through visits to the local office by state consultant within six months of CAP (December 2007). A minimum of 10 cases will be reviewed as third party case record reviews. The selected cases will be for earned/unearned income. Also, the consultant will review monthly statistics and periodic reports related to each error element monthly as part of the ongoing evaluation.

Anticipated completion date: December 31, 2007

***Finding 06-6-1 – Food Stamps, TANF, Child Care Development, Foster Care, Social Services***

OMB Circular A-87 – Cost Principles for State, Local, and Tribal Governments, Appendix B, Section 8.d (3), states that payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component. We tested twenty-five (25) employees who retired or terminated employment from the Department of Human Resources during the audit period. We noted two instances where an employee's termination payment for annual leave was not allocated as a general administrative expense to all activities of the Department. In both instances, the employee's termination payment was allocated to the federal programs that their salary was allocated to. Subsequent to these errors being brought to the Department's attention, they were corrected. This is noncompliance with federal laws and regulations.

Contact person(s): Kelly Lever and Belle Souza

Corrective action planned: Corrections were made immediately at the time found. All staff have been notified and made aware of the appropriate administrative code to be used and this is not expected to be an issue in the future. Supervisors will monitor future transactions.

Anticipated completion date: Corrective action has been taken.

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***Auditee Responses/Corrective Action Plans***  
***Section III – Federal Awards Findings and Questioned Costs***  
***Department of Public Health***  
***For the Year Ended September 30, 2006***

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As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section \_\_.315(c), the Department of Public Health has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2006.

**Corrective Action Plan Details**

**Finding 97-9-8 – WIC and MCH Block Grant**

The Alabama Department of Public Health has developed a formal contingency plan that includes policies and procedures to be followed in the event of a disaster that adversely affects the operations of its data processing. Applications essential for accounting for federal programs reside on the Finance Department Information Systems Division (ISD) mainframe computer. The Department does not have a contingency plan for mainframe applications in case the ISD mainframe becomes unavailable. ISD has established an alternate processing facility which is located at the Alabama Supercomputer Authority in Huntsville, Alabama. ISD plans to make this facility available to state agencies and departments to use as a back-up recovery facility. The agencies will have the responsibility of storing back-up files in a compatible format. Agencies will be phased in as resources become available. It is expected that the Alabama Supercomputer Authority processing site will eventually resolve this finding. However, at this time the finding is not resolved. This remains a reportable condition in internal controls.

Contact person(s): John Heitman

Corrective action planned: As stated before, the Department of Public Health has neither the authority nor ability to contract for an alternate processing facility. That ability rests solely with the Department of Finance Information Services Division (ISD). ISD, in cooperation with the Alabama Department of Transportation, has established an alternate processing facility located in Huntsville, Alabama at the Alabama Supercomputer Authority. The facility is now available for state agencies to use. Public Health will meet with ISD to establish requirements and develop a project plan to use the facility as a back-up disaster recovery system for ADPH mainframe applications.

Anticipated completion date: Unknown

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***Auditee Responses/Corrective Action Plans***  
***Section III – Federal Awards Findings and Questioned Costs***  
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***For the Year Ended September 30, 2006***

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As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section \_\_.315(c), the Department of Conservation and Natural Resources has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2006.

**Corrective Action Plan Details**

**Finding 06-13-1 – Coastal Zone Management Admin Awards and Fish and Wildlife Cluster**

OMB Circular A-102 Common Rule, Section .35 prohibits non-federal entities from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include procurement contracts for goods or services equal to or in excess of \$25,000 and all nonprocurement transactions. The Department of Conservation and Natural Resources did not have internal controls in place to prevent the agency from awarding a contract to a suspended or debarred party. This is a reportable condition in internal controls.

Contact person(s): Becky J. Brassfield

Corrective action planned: DCNR will incorporate into all future contracts and grants the following:

**Certification Regarding Debarment, Suspension, and Other Responsibility Matters**

The Contractor certifies to the best of its knowledge and belief that it and its principals:

- (a) Are not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from covered transactions by any Federal department or agency.
- (b) Have not within a three year period preceding this agreement been convicted of or had a civil judgment rendered against them for commission of fraud or a criminal offense in connection with obtaining, attempting to obtain, or performing a public (Federal, State, or local) transaction or contract under a public transaction; violation of Federal or State antitrust statutes or commission of embezzlement, theft, forgery, falsification or destruction of records, making false statements, or receiving stolen property;

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- (c) Are not presently indicted for or otherwise criminally or civilly charged by a government entity (Federal, State, or local) with commission of any of the offenses enumerated in paragraph (b) of this certification; and
- (d) Have not within a three-year period preceding this agreement had one or more public transactions (Federal, State, or local) terminated for cause or default.

Anticipated completion date: Immediate

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***Auditee Responses/Corrective Action Plans***  
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As required by the Office of Management and Budget (OMB) Circular Number A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section \_\_.315(c), the Department of Postsecondary Education has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2006.

**Corrective Action Plan Details**

**Finding 06-17-1 – Adult Education – State Grant Program**

OMB Circular A-87, Attachment B, Selected Items of Cost, requires that personnel activity reports (time sheets) reflect an after-the-fact distribution of the actual activity of each employee and account for the total activity for which each employee is compensated. Also, OMB Circular A-87 provides that the cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if: they are provided under established written leave policies; the costs are equitably allocated to all related activities, including Federal awards; and, the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the governmental unit.

We reviewed an initial selection of time sheets for ten employees for one month and noted that two of these time sheets did not account for the total activity for which the employee was compensated. We reviewed the time sheets for these same ten employees for two additional months and noted similar errors. Three of the ten timesheets for one of the additional months did not account for the total activity for which the employees were compensated. One of the timesheets for the other additional month selected accounted for more than the total activity for which the employee was compensated. These errors do not provide an accurate after-the-fact distribution of the actual activity of each employee.

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In our initial selection of timesheets, we noted that the timesheets documented that six of the ten employees charged part of their time to “special leave.” For these six employees, the number of hours of this type leave charged for the month ranged from four to six hours per employee. All or a portion of this leave was charged to the federal program depending on the employee’s percentage of time worked on the program. The employees charged time to special leave when the Department’s Chancellor allowed them to leave work early on Friday afternoons. We noted that special leave was also being charged during the review of timesheets for two additional months. The Department of Postsecondary Education’s personnel procedures handbook provides for special leave to be used under special circumstances, including leave without pay, blood donation leave, professional/educational leave, and administrative leave granted for temporary appointment of Department employees within the Alabama College System. Allowing an employee to leave work early is not an acceptable or appropriate reason to grant special leave and is not considered an allowable fringe benefit cost under Circular A-87. The amount of questioned costs was not readily determinable.

These instances constitute a reportable condition in internal control and noncompliance with federal laws and regulations.

Contact person(s): Leigh Grogan and Robin Head, Fiscal Division and Chad Nunn, Information Services Division

Corrective action planned: The Department's time and leave system is an electronic format developed and maintained internally. A review of current procedures has been completed with several actions taken to improve controls in the system. Among these are revised verifications statements on the timesheet required of the employee and supervisor, revised timesheet procedures in the Department's personnel handbook, revised electronic timesheet alert designations to denote timesheet errors and Department-wide mandated training to educate all staff on required time and leave procedures and updates.

The practice of closing the Department prior to the end of the work day on Friday was discontinued after the departure of a former chancellor. In order to account for this time, all employees who were not otherwise on an approved leave status and regardless of salary fund source were noted as on special leave. This practice does not exist after June 2006.

Anticipated completion date: July 31, 2007



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**Finding 06-17-2 – Adult Education – State Grant Program**

OMB Circular A-87, Attachment A, General Principles for Determining Allowable Costs, establishes principles and standards for determining allowable costs for federal awards. To be allowable under federal awards, costs must meet several general criteria, including that the costs be adequately documented. During our testing of a selection of vouchers for the Adult Education – State Grant Program, we noted that several of the payments were made by the Department of Postsecondary Education to two-year colleges that provide adult education services. The documentation that was attached to most of these payments was a monthly reimbursement request form (Monthly Request for Funds “MRF” form) that was completed by the college. This form includes for the college their total adult education funds received from the Department during the grant year through the month being reported, total adult education disbursements through the month being reported, estimated disbursements for the month subsequent to the month being reported, and an amount of cash requested from the Department that is calculated using the other amounts on the form. This form presents amounts in total for the program and does not present the amounts by budget category (e.g. salaries, supplies, etc.) Other payments made by the Department to the colleges were supported only by a letter from the Chancellor with a stated adult education purpose rather than a monthly reimbursement request form from the college. For the payments made by the Department of Postsecondary Education to the colleges, the Department did not obtain from the colleges adequate documentation that supports the adult education disbursements made by the colleges using the funds received from the Department. This is a reportable condition in internal control and noncompliance with federal laws and regulations.

As we were unable to determine from the records maintained at the Department the allowability of payments made by the Department to the colleges, we decided to visit six of the colleges and review their supporting documentation for their adult education disbursements. The colleges visited included Central Alabama Community College, J. F. Ingram State Technical College, Jefferson State Community College, Northeast Alabama Community College, Northwest-Shoals Community College, and Shelton State Community College. We noted discrepancies in the documentation for disbursements at these colleges.

The discrepancies consisted primarily of differences between the amounts reported on the MRF forms submitted to the Department and amounts on supporting documentation.

Contact person(s): Leigh Grogan and Marilyn Johnson, Fiscal Division

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Corrective action planned: The Department of Postsecondary Education will ensure that all its Adult Education expenditures are supported by adequate documentation. Effective with the 2007-2008 grant year, funds awarded under the Adult Education and Family Literacy Act will report using the new Monthly Report of Expenditures which replaces the Monthly Request for Funds (MRF). The new report reflects each budget category, such as salaries and supplies and will be supported by and reconciled with documentation submitted by the sub-recipients to the Department. Examples of documentation include payroll registers and invoices.

Funds awarded for other adult education programs will be monitored using a Quarterly Report of Expenditures which reflects each budget category, such as salaries and supplies. The Quarterly Report of Expenditures will be supported by and reconciled with documentation submitted by the sub-recipients to the Department. Examples of documentation include payroll registers and invoices.

Anticipated completion date: Effective with July 1, 2007 reporting